S. Hrg. 98-1214

POTENTIAL IMPACT OF THE GRAND GULF NUCLEAR POWERPLANT ON SMALL BUSINESSES AND FARMERS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

POTENTIAL IMPACT OF THE GRAND GULF NUCLEAR POWERPLANT ON SMALL BUSINESSES AND FARMERS

LITTLE ROCK, AR—DECEMBER 7, 1984

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
42-364 O WASHINGTON : 1985

5721-5

COMMITTEE ON SMALL BUSINESS

LOWELL WEICKER, Jr., Connecticut, *Chairman*

BOB PACKWOOD, Oregon
ORRIN G. HATCH, Utah
RUDY BOSCHWITZ, Minnesota
SLADE GORTON, Washington
DON NICKLES, Oklahoma
WARREN RUDMAN, New Hampshire
ALFONSE M. D'AMATO, New York
BOB KASTEN, Wisconsin
LARRY PRESSLER, South Dakota

DALE BUMPERS, Arkansas
SAM NUNN, Georgia
WALTER D. HUDDLESTON, Kentucky
JAMES R. SASSER, Tennessee
MAX BAUCUS, Montana
CARL LEVIN, Michigan
PAUL E. TSONGAS, Massachusetts
ALAN J. DIXON, Illinois
DAVID L. BOREN, Oklahoma

Robert J. Dotchin, *Staff Director*
Alan L. Chvotkin, *Minority Chief Counsel*

CONTENTS

Page

Statement of Senator:

Bumpers, Hon. Dale, a U.S. Senator from the State of Arkansas, and acting chairman, Committee on Small Business 1

Statement of Representative:

Anthony, Hon. Beryl, Jr., a U.S. Representative from the State of Arkansas 29

Statement of:

Amos, John, general manager for energy resources, Reynolds Metals; Richard Bell, Riceland Foods; and Ronald Bailey, Producers' Rice Mill... 206

Bemis, Mike, senior vice president for rates and regulation, Arkansas Power & Light Co., accompanied by Jerry Jackson, Esq 35

Clinton, Hon. Bill, Governor of the State of Arkansas 18

Cormier, Harry W., Jr., president, Cormier Rice Milling Co., Inc.; Sherman Cullum, Fisher, AR; and Robert McGinnis, a member of the Arkansas State House of Representatives 287

Duncan, James, Arkansas Cattlemen's Association; Bettye Ann Cooper, Women Involved in Farm Economics; Hays T. Sullivan; and Gene Sweat 221

Hargrove, Nicky, Arkansas Farm Bureau; Jack Cothran, American Agriculture Movement; and Milton Thomas, Arkansas Farmers Union 216

Johnston, Dr. Robert, chairman, Arkansas Public Service Commission, accompanied by Larry Jegley, staff attorney, Arkansas Public Service Commission 164

Neimeth, Bruce, Monark Boat Co.; Ed Ligon, Jr., Orbit Valve International, Inc.; Joe Becton, American Transportation Corp.; and Walter H. Koehler, Koehler Bakery 264

Newman, Gene, director of engineering and purchasing, Tastybird Foods; and Don Allen, executive director, Arkansas Poultry Federation 232

Scrimshire, Bill, Mayor of Malvern; Donald Munro, Munro & Co., Inc.; Jane Adcox, owner, the American Restaurant; and Bill Thornton 325

Segrest, Earl L., Jr., Stant, Inc.; Chinelcie Cole, president, Midwest Industries; Charles Jolliff, executive director, Arkansas Retail Grocers Association; and Cheryl N. Maxwell, R.D., Associated Milk Producers, Inc..... 320

Shipp, C. Terry, controller, Deltic Farm & Turner Co., Inc.; Charles Shields, Shields Lumber; and James C. Scott, senator, Arkansas General Assembly 300

Smith, Fred H., president, Warner Brown Hospital; Larry Lazenby, vice president, Baptists Medical System; James T. Caplinger, president, Caplinger Motors; and Bob Russell, president, Arkansas Automobile Dealers Association and president, Little Rock Chamber of Commerce 238

HEARING DATE

December 7, 1984:

Morning session 1

Afternoon session 231

POTENTIAL IMPACT OF THE GRAND GULF NUCLEAR POWERPLANT ON SMALL BUSINESSES AND FARMERS

FRIDAY, DECEMBER 7, 1984

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Little Rock, AR.

The committee met, pursuant to notice, at 9:04 a.m., at the fourth floor auditorium, Worthen Bank Building, 200 West Capitol Avenue, Little Rock, AR, Hon. Dale Bumpers (acting committee chairman) presiding.

Present: Senator Bumpers.

Staff present: Alan L. Chvotkin, minority chief counsel and staff director, and Tom Walsh, minority counsel.

Senator BUMPERS. The committee will come to order.

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS, AND ACTING CHAIRMAN, COMMITTEE ON SMALL BUSINESS

Senator BUMPERS. The Small Business Committee is holding this hearing to consider an issue of overwhelming importance to small businesses and farmers in Arkansas and, ultimately, across the country as well. That issue is the potential impact on these businesses of a ruling by the Federal Energy Regulatory Commission which would impose 36 percent of the cost of the Grand Gulf nuclear powerplant on Arkansas, and which would result in enormous increases in utility rates for these and other electricity consumers. This committee will also examine the impact of a possible decision, less dramatic, such as the imposition of 17.1 percent of the costs of Grand Gulf, and how such costs might be imposed upon us.

FERC is currently considering two cases which have become household words in Arkansas—the so-called *Grand Gulf Power Plant* case and the *Systems Averaging* case. These cases, if decided against Arkansans, could increase utility rates for small businesses, farmers, and other customers of Arkansas Power & Light by 25 percent, and possibly as much as 50 percent.

AP&L's customers hardly need to be told that utility rates have already risen dramatically in recent years, and another 25- to 50-percent increase would devastate every sector of our economy.

There is no doubt that utility rates have a significant impact on the competitiveness and survivability of this State's small businesses and farmers. Our largest corporate citizens will also be hurt, and would have no choice but to pass on their increased costs, where they can, to the many small businesses with whom they deal. So we will hear from Arkansas' largest users of electricity as well as many of the smaller businesses and farmers who form the backbone of our economy. In my view, a final adverse decision in either of these two cases could have a disastrous effect on any of these—and perhaps all of these—businesses, and on the economy and future economic development of the State.

This hearing is designed to provide the Small Business Committee with specific insights into the likely impact of these businesses and farmers if the administrative law judge's opinion becomes the decision of the full Commission, and ultimately, of the courts. We also want information on the impact of a decision that would require AP&L to bear 17.1 percent of the costs of Grand Gulf.

For the purposes of the record, and even though the facts are well known in Arkansas, let me summarize the situation. In the last decade, AP&L undertook an ambitious construction program to make sure that it had sufficient reserve capacity to meet present and future demand for electricity. It built two large nuclear plants, plus two coal-fired plants at Redfield, and another coal-fired plant at Newark, in Independence County, which is also known as the Independence plant.

At the same time other companies in the Middle South system, of which AP&L is a part, had begun construction programs. One of those plants was a nuclear powerplant being built by Mississippi Power & Light at Grand Gulf, MS. Mississippi Power & Light had no experience with nuclear plants, and the plant's costs escalated almost as soon as it was proposed. As a result, MP&L was not financially strong enough to handle the project on its own, so Middle South, through a subsidiary created for the purpose, took over construction of Grand Gulf. The other subsidiaries agreed to help finance the plant, AP&L's share being 17.1 percent. The plant has finally received its full-power operating license, but the cost is now over $4 billion, representing roughly an 800-percent to 900-percent cost overrun.

In 1980, before the plant was completed, AP&L was released by the other subsidiaries of Middle South from its obligation to help pay for the plant. AP&L agreed with its fellow subsidiaries that it would take none of the power, and they agreed to indemnify AP&L if AP&L had to satisfy its guarantee of 17.1 percent of the Grand Gulf indebtedness.

I should add that AP&L's withdrawal from this agreement was apparently the result of action taken by the Arkansas Public Service Commission, which refused to authorize construction of the Independence plant unless and until AP&L agreed to sever its connections with the Grand Gulf plant.

Nevertheless, FERC is now considering whether to honor the agreement that permitted AP&L to withdraw. If the Commission upholds the administrative law judge's decision, it would require AP&L to pay for 36 percent of the Grand Gulf plant, and that would add $900 million to AP&L's bill and over a 10-year period would cost Arkansas ratepayers approximately $3 billion.

In the second case, the so-called *Systems Averaging Case,* FERC is considering whether AP&L should be forced to help pay for the entire Middle South system's excess capacity. At the moment, that primarily means helping to pay for both Grand Gulf and Louisiana Power & Light's Waterford nuclear plant. Losing the system's case would mean an estimated 50-percent increase in AP&L's rates.

Let me add that I have joined with the entire congressional delegation as an intervenor before the Federal Energy Regulatory Commission. Our position in that proceeding was, and continues to be, that Arkansas should not be burdened with costs of powerplants located outside Arkansas which we did not ask for, and which we cannot use, and don't need.

In the last session of Congress, Senator Pryor and I introduced legislation removing from FERC all authority to issue such a decision. Depending on the timing and outcome of the current proceedings at the Federal agency, that legislation will be introduced in the next Congress, as well.

I want to thank the chairman of this committee, Senator Lowell Weicker, for agreeing to this important hearing in Arkansas. I am also indebted to all the witnesses who have agreed to take time out of their very busy schedules and appear before the committee today to share with us the benefit of their thoughts as to how they would be affected. The interest in this hearing and the turnout today clearly reflect the importance of this issue to Arkansas, and I look forward to hearing all of the witnesses' statements.

[The prepared statement of Senator Bumpers follows:]

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

Today, the United States Senate Small Business Committee is holding this hearing to consider an issue of overwhelming importance to small businesses and farmers in Arkansas and, ultimately, across the country as well. That issue is the potential impact on these businesses of a ruling by the Federal Energy Regulatory Commission which would impose 36 percent of the cost of a nuclear power plant on Arkansas, and which would result in huge increases in utility rates for these and other electricity consumers. This Committee also will examine the impact of a possible decision, less dramatic, such as the imposition of 17.1 percent of the costs of Grand Gulf, and how such costs might be imposed.

FERC is currently considering two cases which have become household words in Arkansas—the so-called Grand Gulf Power Plant case and the Systems Averaging case. These cases, if decided against Arkansans, could increase utility rates for small businesses, farmers and other customers of Arkansas Power and Light [AP&L] Company by at least 25%, and possibly by as much as 50 percent.

AP&L's customers hardly need to be told that utitity rates have already risen dramatically in recent years. Another 25 to 50 percent increase could devastate every sector of the economy of this entire state.

There is no doubt that utility rates have a significant impact on the competitiveness and survivability of this State's small businesses and farmers. Our largest corporate citizens will also be hurt, and would have no choice but to pass on their increased costs to the many small businesses with whom they deal. We will, therefore, hear from Arkansas' largest users of electricity as well as many of the smaller businesses and farmers who form the backbone of Arkansas' economy. In my view, a final adverse decision in either of these two cases could have a disastrous effect on each of these businesses and on the economy and future economic development of this state.

This hearing is designed to provide the Small Business Committee with specific insights into the likely impact on these businesses and farmers if the Administrative Law Judge's opinion becomes the decision of the full Commission. We also want information on the impact of a decision that would require AP&L to bear 17.1 percent of the costs of Grand Gulf.

For purposes of the record, and even though the facts are well known in Arkansas, let me summarize the situation. In the last decade, AP&L undertook an ambitious construction program to make sure that it had sufficient reserve capacity to meet present and future demand for electricity. It built two large nuclear plants, plus two coal-fired units at Redfield and another coal-fired unit at Newark, in Independence County, which is known as the Independence plant.

At the same time, other companies in the Middle South system, of which AP&L is a part, had begun construction programs. One of those plants was a nuclear power plant being built by Mississippi Power and Light at Grand Gulf, Mississippi. MP&L had no experience with nuclear plants, and the plant's costs escalated almost as soon as it was proposed. As a result, MP&L was not financially storng enough to handle the project on its own, so Middle South, through a subsidiary created for the purpose, took over construction of Grand Gulf. The other subsidiaries agreed to help finance the plant, AP&L's share being 17.1 percent. The plant has finally received its full power operating license, but the cost is over $3 billion, representing about an 800 percent to 900 percent cost overrun from the original projection of $400 million.

In 1980, before the plant was completed, AP&L was released by the other subsidiaries of Middle South from its obligation to help pay for the plant. AP&L agreed with its fellow subsidiaries that it would take none of the power, and they agreed to indemnify AP&L if AP&L had to satisfy its guarantee of 17.1 percent of the Grand Gulf indebtedness.

I should add that AP&L's withdrawal from this agreement was apparently the result of action taken by the Arkansas Public Service Commission, which refused to authorize construction of AP&L's Independence plant unless AP&L agreed to sever its connection with Grand Gulf.

Nevertheless, FERC is now considering whether to honor the agreement that permitted AP&L to withdraw. If the Commission upholds the Administrative Law Judge's decision, it would require AP&L to pay for 36 percent of the Grand Gulf plant. That would add $900 million to AP&L's bill, and over a 10-year period, would cost Arkansas ratepayers approximately $3 billion.

In the second case, the so-called "Systems Averaging Case," FERC is considering whether AP&L should be forced to help pay for the entire Middle South system's excess capacity. At the moment, that primarily means helping to pay for both grand Gulf and Louisiana Power & Light's Waterford nuclear unit. Losing the systems case could mean an estimated 50 percent increase in AP&L's rates.

Let me add that I have joined with the entire Arkansas congressional delegation as an intervenor before the Federal Energy Regulatory Commission. Our position in that proceeding was, and continues to be, that Arkansas should not be burdened with costs of power plants located outside Arkansas which we did not ask for and which we do not need.

In the last session of Congress, Senator Pryor and I introduced legislation removing from FERC all authority to issue such a decision. Depending on the timing and outcome of the current proceedings at the Federal agency, that legislation may be introduced in the next Congress, as well.

I appreciate the assistance of Senator Lowell Weicker, the Chairman of the Senate Small Business Committee, for agreeing to this important hearing in Arkansas. I am also indebted to all the witnesses who agreed to take the time out of their busy schedules and appear before the committee today to share with us the benefit of their thoughts as to how they will be affected. The interest in this hearing and the turnout today clearly reflect the importance of this issue to Arkansas. I look forward to all of the witnesses' statements today.

Senator **Bumpers**. I want to include in the record, at the appropriate place, a summary of FERC's proceedings concerning the Grand Gulf plant prepared by the minority staff of the Small Business Committee. and I also want to insert in the record additional statements that have been received from witnesses unable to personally appear before the committee, but who wanted their statements inserted.

[The documents referred to follow:]

Proceedings at the FERC

A. GRAND GULF AND THE ALJ'S DECISION

When Middle South Utilities filed the Unit Power Sales Agreement allocating the Grand Gulf power, it was attacked, primarily by the Louisiana PSC and the City of New Orleans, as being discriminatory. The agreement would force 68.37 percent of the plant's cost upon Louisiana while letting Arkansas off free. The primary argument that this was discriminatory was that this arrangement would widen the disparity in rates among the different operating companies. At the time of the hearing, AP&L's costs were 1.17¢/Kwh cheaper than MP&L's, 1.32¢/Kwh cheaper than NOPSI's and 0.09¢/Kwh cheaper than LP&L's.

This argument was apparently persuasive to the Administrative Law Judge [ALJ] because he issued an opinion requiring AP&L to pay for 36 percent of the plant. The change would be the following:

[Dollar amounts in millions]

	Reallocation agreement		ALJ decision	
	Percent	Amount	Percent	Amount
AP&L		0	36	$900
LP&L	38.57	$964	14	350
MP&L	31.63	791	33	825
NOPSI	29.80	745	17	425

In issuing his opinion, the ALJ was guided by his conclusion that the retail rates of the companies should be equalized. The foundation of that conclusion was his finding that MSU was a fully integrated, centrally run company, not a collection of independent operating companies.

AP&L and the Arkansas Industries have attacked that finding, and they have challenged the Commission's jurisdiction to provide relief which effectively alters retail rates, a province of state regulatory bodies. The correct designation of MSU's status is clearly one about which reasonable men could differ, and there is certainly record evidence sufficient to support a finding either way. Consequently, a reviewing court would not likely reverse the Commission's finding on that point.

The nature of the Commission's jurisdiction is discussed below, but there is no doubt that the Commission has jurisdiction to set interstate rates and that Grand Gulf's power will be in the interstate market. The only question is whether its jurisdiction extends to the remedy proposed, and it probably does. Typically, a regulatory agency has authority to provide the relief necessary to enforce the laws entrusted to it, and the remedy is not *per se* a setting of retail rates. It does not delve into matters reserved to the States, such as plant siting and the cost of generation.

B. THE SYSTEMS CASE

The foundation of the systems case is the proposed Systems Agreement of 1982, which would supercede the 1973 Systems Agreement. It would only have changed the charge for power bought by one MSU company from another, basing it upon intermediate oil- and gas-fired capacity, the assumed real originators of the reserve power purchased.

The difficulty is that the same intervenors have protested this filing, using the same arguments as in the Grand Gulf case. Thus, instead of the potential for a 25 percent rate increase in the latter, AP&L is faced with the possibility of a 50 percent increase. This figure is somewhat speculative, because the ramifications of the case are so far reaching. To simplify a bit, it basically involves LP&L's Waterford 3 nuclear plant in addition to Grand Gulf. These two plants together would comprise only 14 percent of MSU's capacity, but they would represent two-thirds of its total investment in capacity.

The ALJ's decision is extremely important, because if he finds that MSU is a fully integrated, centrally run system, then the Commission would be hard-pressed to find otherwise.

C. LEGAL BACKGROUND

Federal-State Jurisdiction.—The jurisdiction of the Federal Energy Regulatory Commission is founded upon the Federal Power Act, which Congress passed in response to the Supreme Court's decision in *Public Utility Commission of Rhode Island* v. *Attleboro Steam and Electric Co.*, 273 U.S. 83 (1927), which held that the state utility commission had no jurisdiction over rates for electricity sold in interstate commerce. In the *Attleboro* case, the Narragansett Electric Co., a Rhode Island corporation, sold electricity exclusively within Rhode Island, with one exception, a fixed price contract to sell electricity to the Attleboro Steam and Electric Company of Massachusetts. The sale ostensibly occurred at the state line.

With the passage of time, the Narragansett-Attleboro contract became unprofitable for Narragansett, so Narragansett unilaterally filed a rate change with the Rhode Island PUC. The PUC accepted the change and ordered it into effect, asserting that Rhode Island customers would otherwise be required to make up the difference or that Narragansett's financial stability, and thus its ability to render adequate service, would be jeopardized.

The Supreme Court reversed that decision, holding that the PUC's order was an impermissible burden upon interstate commerce. It rejected the PUC's reasoning, concluding it was regulating interstate rates. It pointed out that any state would have a similar argument for regulating interstate rates and that the result would be contradictory rate orders, with exporting states trying to increase the rates for electricity sold outside the state and importing states seeking to decrease those same rates. The Court also noted (273 U.S. 83, 90): "The forwarding state obviously has no more authority than the receiving State to place a direct burden upon interstate commerce."

In the context of the Grand Gulf case, this language would appear to rule out any jurisdiction of the Arkansas Public Service Commission over the plant or the rates once the electricity enters Arkansas.

The *Attleboro* decision created a gap in utility reduction which some utilities were able to exploit. Holding companies in particular were able to load their non-operating costs onto their intrastate utilities, forcing up rates. To close the "*Attleboro gap*" Congress passed the Federal Power Act which conferred jurisdiction over interstate sales and sales for resale in interstate commerce upon the Federal Power Commission, now the Federal Energy Regulatory Commission. It specifically reserved all other matters to the states. This reservation, however, has been reduced largely to a policy declaration by the Supreme Court's own words in *FPC* v. *Southern California Edison*, 376 U.S. 205 (1964). The Court said that the Federal Power Act (id, at 215): "make(s) FPC jurisdiction plenary and extend(s) it to all wholesale sales in interstate commerce except those which Congress has made explicitly subject to regulation by the States."

The Court has defined "interstate commerce" very broadly in its more recent decisions. It first attempted to look at the general nature of the companies and transactions involved. That approach lacked certainty, so it adopted the "bright line" approach of tracing the actual flow of the electricity to determine whether it crossed state lines. For example, in the *Southern California Edison* case, supra, the Court traced the electricity from its origin in Nevada and Arizona to the city of Colton, California, to determine that the sale was in interstate commerce, even though the utility sold electricity in California only. More recently, the Eighth Circuit Court of Appeals held that such tracing was not necessary. In *Arkansas Power & Light* v. *FPC*, 368 F.2d 376 (8th Cir. 1966), it held that the integrated nature of AP&L with the Middle South system guaranteed that power sold to certain Arkansas cooperatives was in interstate commerce, having originated in part in plants outside of Arkansas. Applying this precedent to Grand Gulf, that same integrated status guarantees that some of AP&L's power will come from Grand Gulf, even though it is not contractually obliged to take it or pay for it. For contractual purposes, it will be deemed to have received power originating elsewhere.

Finally, as some of the foregoing suggests, the Arkansas PSC has no authority to change the rates approved by the FERC. This situation was confirmed in *Narragansett Electric Co. v. Burke*, 381 A. 2d 1358 (Sup. Ct. of R.I., 1977), cert. denied 435 U.S. 972 (1978), where the Supreme Court of Rhode Island agreed that the Federal Power Act preempted the State's authority to investigate interstate prices. In that case, Narragansett, a retail utility in Rhode Island was a subsidiary of New England Electric System (NEES). Narragansett bought electricity from the New England Power Company [NEPCO], another NEES subsidiary. When NEPCO filed a rate increase with the FPC, Narragansett filed a commensurate increase with the Rhode Island PUC as a fuel adjustment. The PUC attempted to investigate NEPCO's costs. It acknowledged that it had no jurisdiction over NEPCO, but it argued that it could prevent the flow through of costs which were strikingly or glaringly out of line. The Rhode Island Supreme Court reversed, holding that the Federal Power Act preempted state jurisdiction. The U.S. Supreme Court denied certiorari.

The parallels in the Narragansett case to the Grand Gulf case are too obvious to be ignored. AP&L will be buying electricity from Grand Gulf, both as a physical fact and as a result of the possible Commission decision, which is owned by the same holding company that owns AP&L, just as Narragansett was buying electricity from a sister subsidiary. Clearly, the Arkansas PSC cannot assert jurisdiction over those sales and thus attempt to determine whether the plant's costs were not prudently incurred.

This conclusion is buttressed by the decision of the United States District Court for the Western District of Arkansas in *Middle South Energy, Inc. v. Arkansas Public Service Commission* (Sept. 14, 1984). In that case, the Arkansas PSC sought to assert jurisdiction to void AP&L's contracts with the other operating companies of MSU. The Court held that the FERC had exclusive jurisdiction over interstate rates, that the contracts were "essential to the interstate wholesale sale of power" and thus that the Arkansas PSC had no jurisdiction. Much the same reasoning would attend any attempt to limit AP&L's recovery of costs associated with the Grand Gulf plant.

ASSOCIATED MILK PRODUCERS, INC.
ARKANSAS DIVISION
P. O. BOX 9689
LITTLE ROCK, ARKANSAS 72219
PHONE: 501 224-9200

DECEMBER 7, 1984

THE COMMITTEE ON SMALL BUSINESS

MY NAME IS JERRY MOORE, AND I RESIDE AT 3111 RIDGE PASS ROAD IN LITTLE ROCK. I WAS BORN IN RURAL ARKANSAS WITHOUT THE LUXURY OF ELECTRICITY. WE DID GET ELECTRICITY IN 1948, WHEN I WAS ABOUT NINE YEARS OF AGE. OUR NEW POWER LINE WAS CONSTRUCTED BY A.P. & L., AND ALTHOUGH R.E.A. HAD BEEN WITHIN FOUR MILES OF OUR AREA FOR SOMETIME, MY FAMILY AND OTHERS, KNOWING LITTLE ABOUT COOPERATIVES, WERE NOT INTERESTED IN R.E.A. AND WANTED WHAT THEY PERCEIVED WAS THE BEST, A.P. & L. MANY OF US TODAY ARE ABLE TO CHOOSE WHERE WE LIVE, AND THOSE OF US WHO LIVE IN ARKANSAS ARE FORTUNATE TO BE IN AN AREA WHERE ELECTRICITY CAN BE PRODUCED FOR ABOUT ONE THIRD THE COST OF PRODUCTION IN SOME OTHER AREAS. THE REASON FOR THIS INFORMATION IS TO LET YOU KNOW THAT I PERSONALLY HAVE A GREAT APPRECIATION FOR THE MANY CONVENIENCES ELECTRICITY OFFERS AND TO THE INCREASED QUALITY OF OUR LIVES IT PROVIDES. I DO NOT MIND PAYING A FAIR PRICE FOR THE ELECTRICAL POWER WE USE.

I'M NOT GOING TO BORE YOU WITH A LOT OF NUMBERS; RATHER, I WILL DISCUSS IN GENERAL THE POSSIBLE EFFECTS OF A 50 PERCENT INCREASE IN ELECTRICITY COSTS. I AM EMPLOYED BY ASSOCIATED MILK PRODUCERS, INC. "A.M.P.I.", A MILK MARKETING COOPERATIVE, MADE UP OF DAIRY FARMER MEMBERS, 800 OF WHOM ARE IN ARKANSAS. THEY USE ELECTRICITY TO MILK THEIR COWS, COOL AND STORE THE MILK AND TO LOAD THE PRODUCT ON THEIR COOPERATIVE'S TRAILERS FOR ITS' TRIP TO THE MARKET. THE COOPERATIVE USES ELECTRICITY AT ITS' FIVE OPERATING LOCATIONS IN ARKANSAS FOR THE ADMINISTRATION, TRANSPORTATION AND MARKETING OF ITS' MEMBERS PRODUCT. ELECTRICITY COSTS ARE A MAJOR FACTOR IN THE OPERATION OF THE FARM AND THE COOPERATIVE. WE ARE VERY CONCERNED WITH THE POSSIBILITY OF AN UNJUST INCREASE BEING PLACED UPON US. IN THE MILK BUSINESS, THE AREA WITH THE LEAST PRODUCTION COST AND THE RESERVE SUPPLY OF MILK IS WHERE THE LOWER PRICE IS RECEIVED FOR THE PRODUCT. IT SEEMS THIS SHOULD APPLY TO ELECTRICITY AS IT RELATES TO ARKANSAS AND THE RATE PAYERS. ALSO, IN THE MILK BUSINESS, IF MANAGEMENT AND THE BOARD OF DIRECTORS OF A. M. P. I. MAKE A COSTLY BUSINESS DECISION, ONLY MEMBERS OF A.M.P.I. PAY FOR THE MISTAKE. MAYBE THIS PRINCIPLE

SHOULD APPLY FOR THE MIDDLE SOUTH UTILITIES MANAGEMENT AND BOARD OF DIRECTORS IN MAKING WHAT MIGHT BE A WRONG DECISION; ITS' STOCKHOLDERS AND NOT THE RATE PAYERS SHOULD BEAR THE CONSEQUENCES OF THEIR ACTIONS. LETS SAY THE FARMERS, THEIR COOPERATIVE, PROCESSING PLANTS AND THE SUPERMARKETS HAVE THEIR RATE INCREASED BY 50 PERCENT, ULTIMATELY THE RESULTING EXPENSE WOULD BE PASSED ON TO THE CONSUMER, WHO WOULD ALSO BE PAYING HIS 50 PERCENT INCREASE IN ELECTRICITY RATES.

IN CONCLUSION, WE ARE OPPOSED TO THE DECISION WHICH WAS MADE BY AN ADMINISTRATIVE LAW JUDGE OF THE FEDERAL ENERGY REGULATORY COMMISSION REQUIRING A. P. & L. TO PAY A 36 PERCENT SHARE OF THE GRAND GULF PLANT. THIS IS. IF THE ECONOMIC RESPONSIBILITY WERE TO BE PASSED ON TO THE ARKANSAS RATE PAYERS.

THANK YOU FOR ALLOWING ME TO PARTICIPATE IN THIS HEARING.

Jerry Moore

JERRY MOORE
DIVISION MANAGER

ARKANSAS POWER AND LIGHT COMPANY
SETTLEMENT AGREEMENT
COSTS AND DEFERRALS

YEAR	TOTAL COST OF 17.1% ALLOCATION OF GRAND GULF UNIT #1	DEFERRAL FACTOR	AMOUNT DEFERRED	ANNUAL AMOUNT RECOVERED
1985	124,726	0.833	103,897	20,829
1986	149,671	0.666	99,681	49,990
1987	149,671	0.499	74,686	74,985
1988	149,671	0.322	48,194	101,477
1989	149,671	0.166	24,845	124,826
1990	149,671	0.000	0	149,671
1991	149,671	0.000	0	149,671
1992	149,671	0.000	0	149,671
1993	149,671	0.000	0	149,671
1994	149,671	0.000	0	149,671

ARKANSAS POWER AND LIGHT COMPANY
SETTLEMENT AGREEMENT
COSTS AND DEFERRALS

YEAR	TOTAL COST	AMOUNT DEFERRED	AMOUNT RECOVERED	AMORTIZED AMOUNT	ACCUM. DEFERRED	ACC DEFER * .5076	FINANCING COSTS	TOTAL RECOVERED
1985	128,050	103,897	24,153	0	103,897	52,738	5,400	29,554
1986	143,160	99,681	43,479	0	203,578	103,336	15,982	59,461
1987	129,300	74,686	54,614	0	278,263	141,247	25,046	79,660
1988	130,332	48,194	82,138	0	326,458	165,710	31,433	113,571
1989	116,628	24,845	91,783	0	351,303	178,321	35,229	127,012
1990	113,112	0	113,112	70,261	281,042	142,657	32,869	216,241
1991	115,596	0	115,596	70,261	210,782	106,993	25,565	211,421
1992	110,256	0	110,256	70,261	140,521	71,329	18,260	198,777
1993	104,304	0	104,304	70,261	70,261	35,664	10,956	185,521
1994	99,000	0	99,000	70,261	0	0	3,652	172,913

ARKANSAS POWER AND LIGHT COMPANY
SETTLEMENT AGREEMENT
COSTS AND DEFERRALS

WITH PHASE-IN

YEAR	TOTAL RECOVERED	RESERVE EQUALIZ.	FUEL SAVINGS	CUSTOMER NET COST	CUMULATIVE % INCREASE OVER BASE CASE	ANNUAL % INCREASE
1985	29,554	33,726	3,126	(7,298)	-0.69%	-0.69%
1986	59,461	30,390	3,669	25,402	2.25%	2.94%
1987	79,660	29,227	9,872	40,561	3.37%	1.13%
1988	113,671	28,412	12,114	73,045	5.58%	2.21%
1989	127,012	27,542	14,819	84,651	6.15%	0.57%
1990	216,241	35,361	27,281	153,599	9.48%	3.33%
1991	211,421	28,654	5,860	176,907	10.36%	0.88%
1992	198,777	24,727	4,157	169,893	8.96%	-1.40%
1993	185,521	24,287	(1,253)	162,507	8.01%	-0.95%
1994	172,913	23,500	(1,500)	150,913	6.82%	-1.19%

ARKANSAS POWER AND LIGHT COMPANY
SETTLEMENT AGREEMENT
COSTS AND DEFERRALS

WITHOUT PHASE-IN

YEAR	TOTAL COST	RESERVE EQUALIZ.	FUEL SAVINGS	CUSTOMER NET COST	CUMULATIVE % INCREASE OVER BASE CASE	ANNUAL % INCREASE
1985	128,050	33,726	3,126	91,198	8.63%	8.63%
1986	143,160	30,390	3,669	109,101	9.65%	1.01%
1987	129,300	29,227	9,872	90,201	7.50%	-2.15%
1988	130,332	28,412	12,114	89,806	6.86%	-0.64%
1989	116,628	27,542	14,819	74,267	5.40%	-1.46%
1990	113,112	35,361	27,281	50,470	3.12%	-2.28%
1991	115,596	28,654	5,860	81,082	4.75%	1.63%
1992	110,256	24,727	4,157	81,372	4.29%	-0.46%
1993	104,304	24,287	(1,253)	81,290	4.01%	-0.28%
1994	99,000	23,500	(1,500)	77,000	3.48%	-0.53%

STRONG SYSTEMS, INC
Operating Divisions
Strong Manufacturing Company, Inc
Strong Lite Products Corp
Strong Lite Products of Illinois Corp

William A. Strong
Chairman of the Board

December 7, 1984

TO: The Honorable Senator Lowell Wicker
The Honorable Senator Dale Bumpers

FROM: William A. Strong, owner of Strong Manufacturing Company and Strong-Lite Products Corporation, Pine Bluff, AR

In reference to your hearings on electrical rates being charged by Arkansas Power and Light Company to customers in Arkansas, I would like to point out some facts to show the impact it has on our business. First I would report that we have two business locations in Arkansas. Strong Manfufacturing Comapny, Inc. in Pine Bluff, manufactures and sells capital goods throughout the world. In 1980, our foreign sales amounted to 20% of total sales. Today, that has shrunk to less than 10%, although sales have increased by some 50%. Our prices are no longer competitive with foreign manufacturers in the overseas markets, although our prices for this 5 year period of time have increased by only 15%. In examining the basic commodity that we buy, steel, we find that prices for this item has risen from $35.05 per CWT in 1980 to $39.34 per CWT in 1984, or an increase of only 12% on an item that is energy sensitive. During this same period with an increase in sales of 50%, our electrical bill has increased from an average of $780 per month in 1980 to $1742 per month in 1984, an increase of 225%.

At our other plant in Pine Bluff, Strong-Lite Products Corp., we produce the commodity items, vermiculite, horticultural and cementitious products all of which are non-durable goods. One of the basic commodities used in our process is Portland cement, another manufactured product that requires large amounts of energy to produce. The price of this commodity at the plant has risen from $45.00 per ton to $53.00 per ton, or an increase of 17%, whereas electricity rate hasrisen at this plant, a total of 80%. Our prices for finished goods has esculated less than 15% for this same period.

A sizable increase in electrical costs will effect the sales, profitability and employment in our two plants. Today, we employ some 80 people at Pine Bluff. The unstable and fast esculation of electrical charges will cause us to look elsewhere at locations for plants. Stability in utility prices, as with other commodities, must come to allow the small businesses to survive, grow and provide the jobs for the expanding population and workforce.

The basic problem with utilities such as Arkansas Power and Light Company is the lack of competitions. They have a monopoly and are guaranteed by law to have a given return on investments and sales. On the surface this sounds good, however, in practice there is little incentive for an efficient run operation. Unlike steel and cement, they have no competition. They are the only game in town. One possible remedy would be to have the franchise or operations put up for bids every 10, 15 or 20 years. Let someone else bid on furnishing electricity. All of their assets are charged to their customers, who are the public and who should have title. If another group can manage the operations more efficiently and produce power for less, then they should be given the opportunity to run the operation. This would give the utilities something that is lacking now, an incentive to run an efficient operation.

Monopolies have never produced the incentives to operate efficiently. They are not healthy nor do they insure a stable economy. Legislation should be forthcoming to create a competitive market. Certainly the mistakes of Mid-South Utilities should not be passed along to either businesses or families of Arkansas. Let them operate as other businesses, whereby mistakes that are made is a business expense, not to be passed along to the unprotected public. It is not a coincident that steel and cement are sold at prices with little esculation. These companies have learned to operate in a competitive world. So would the utilities if they were not protected.

Thanks!

STRONG MANUFACTURING COMPANY, INC. AND
STRONG-LITE PRODUCTS CORPORATION
STRPMG SYSTEMS, INC.

William A. Strong
Chairman of the Board

Senator **Bumpers**. And finally, the hearing record will remain open until January 4, 1985. If any person testifying here today or others interested in this matter would like to submit additional testimony for the record, that, too, will be included. Simply mail the written statements to me in Washington and indicate in a cover letter that the statement is to be included in the December 7 hearing on Grand Gulf.

Has the Governor shown up yet? Is he here?

Governor **Clinton**. I heard all your statement, Senator. [Laughter.]

Senator **Bumpers**. Well, we are honored to have our Governor, Gov. Bill Clinton, here today, who will be our leadoff witness.

Governor, we thank you very much for coming, and we look forward to your testimony.

STATEMENT OF HON. BILL CLINTON, GOVERNOR OF THE STATE OF ARKANSAS

Governor **Clinton**. First of all, I'd like to thank you, Senator Bumpers, and Senator Weicker, and other members of the U.S. Senate Committee on Small Business for arranging this hearing in our State. Small businesses and farms are vital to the economy of Arkansas, and the *Grand Gulf* case, with its spectre of dramatic rate increases, threatens the very existence of our State's small businesses and farms. We welcome and, indeed, solicit your assistance in resolving this crisis and in helping to preserve the economic viability of our State.

Grand Gulf may very well be the single greatest threat ever to the economic future of our State. If we lose both cases pending before the Federal Energy Regulatory Commission and are required by FERC to pass on costs to the ratepayers of Arkansas Power & Light Co., rates could go up as much as 50 percent for the majority of the electricity customers in Arkansas.

The future economic and industrial development of Arkansas depends greatly upon the availability of competitively priced power sources. Our farmers need and require reasonably priced electricity in order to irrigate and process their crops. The poultry industry must have reasonably priced electricity to maintain its operations. The timber industry uses tremendous amounts of electric energy.

This is not in my statement, but parenthetically I should say, Senator, that I have met and talked with representatives of International Paper several times over the last few months in their struggle to keep open the mill at Camden, and one of the things they said in our last meeting was that the union has done everything it can do and the State has done everything it can do and is doing everything it can do. But our electric bills are already higher in this State than any other State in which we operate, and if we have to sustain another major rate increase, I don't know how we can continue to keep that plant in operation.

The success of small businesses depends to a large extent on the continued success and expansion of our industrial and agricultural operations. Small businesses provide necessary and essential support products and services for industrial and agricultural concerns as well as for people who earn their livelihood working in these areas. Without a healthy industrial and agricultural base, small businesses will suffer.

Arkansas has been at or near the bottom rung of America's economic ladder since before World War II. We experienced a surge of prosperity in the 1960's and 1970's which was cut short by inflation and recession. We are moving forward again now but not without problems. Last year our State ranked in the top five States in percentage growth of new jobs. In the first quarter of this year, we were in the top five States again in percentage growth of personal income. Yet our unemployment rate remains above the national average, largely because of plant closings in industries very vulnerable to foreign competition. This vulnerability has increased dramatically in the past 2 years because of the greatly overvalued American dollar. Federal policies have contributed to this overvaluation, and our farmers and import-sensitive industries have paid the price. If Federal policy also requires Arkansas to pay for powerplants in Mississippi and Louisiana that we don't need, never agreed to pay for, and cannot afford, then those who are already in trouble may be ruined and the growth sectors of our economy will be stunted. All our efforts to improve the education and skills of our people and to aggressively promote economic growth and opportunity will be undermined. That is the message our people will bring to you today.

If Arkansas is saddled with devastating increases in electric rates because of Federal decisions on the Grand Gulf and System Average costing issues, we can realistically expect to see many industries drop off our present electrical systems. Other plants will shut down and unemployment will rise. Obviously, we would be unable to attract new industry to take the place of those lost. A significant decline in industrial use would then immediately shift much of the present cost of electric generation now borne by industry to all other ratepayers including small businesses, farmers, working men and women, and senior citizens who are already struggling to make ends meet.

The FERC staff and an administrative law judge have initially concluded that Arkansas must foot the bill for the troubled Grand Gulf nuclear plant in Mississippi which has cost over four times the original estimate. Also, the staff of FERC has recommended that we should pay for a portion of another expensive plant in Louisiana under proposed changes in the system agreement among the Middle South Utilities operating companies. Never before has the FERC decided that the people of any State must purchase power from or pay for an unneeded foreign powerplant. The determination of need for new domestic powerplants has always been within the sovereign power of each State. In this instance, permission to build the Grand Gulf powerplant was never sought from nor given by the Arkansas Public Service Commission, which is statutorily authorized with the responsibility to make such determinations.

The Congress clearly never intended for the FERC to interfere with the rights of individual States to regulate such matters. Section 201(a) of the Federal Power Act sets the jurisdictional boundaries of the FERC, providing that its regulation shall "extend only to those matters * * * not subject to regulation by the States" and further "shall not have jurisdiction * * * over facilities used for the generation of electric energy. * * *" The legislative history of the Federal Power Act clearly indicates that Congress, in formulating the act, intended only to fill existing gaps in the regulatory scheme; it did not intend to remove traditional State regulatory authority.

Why, then, is the FERC considering an order assigning the costs of these plants to Arkansas, and what did Middle South Utilities do to take the *Grand Gulf* case away from the States and give it to the Federal Government?

Historically, States have decided whether a utility could build a powerplant based on consumer need, reasonableness of cost, and compliance with State laws. The Federal Government, on the other hand, has exercised jurisdiction over sales of electricity in interstate commerce and/or at the wholesale level.

In 1973, Middle South Utilities began the process of putting the Grand Gulf plant under Federal jurisdiction by transforming the powerplant construction issue into one of wholesale electricity sales in interstate commerce. This is how it happened: Middle South Utilities created a subsidiary, Middle South Energy, whose sole asset would be Grand Gulf. Who would pay for Grand Gulf? The operating companies. How would they pay? Through contracts for the sale of electricity that are wholesale in nature and most of which are in interstate commerce.

My first contact with this arrangement came in early 1977. As attorney general, I asked Middle South Utilities' president, Floyd Lewis, in a hearing before the Public Service Commission, whether Arkansas would have to pay for a portion of Grand Gulf. He said candidly we would because we would need it. I then asked, since we were at a hearing on raising Arkansas' electric rates to pay for a plant we had built here, whether we would have to pay for a portion of Grand Gulf if we did not need it. He said we would not. We then continued to build powerplants in our State until we had a surplus of plant capacity. However, in 1980, documents filed with the Securities and Exchange Commission revealed that in fact AP&L was still to be assigned 17 percent of Grand Gulf even though we did have a surplus of powerplant capacity in Arkansas—a surplus, that you will remember, Senator, that was so significant that we sold part of the first Independence powerplant in Newark to Mississippi Power & Light Co., and we still had a surplus and they still had a shortage.

I met with AP&L representatives then who agreed with me—to be fair to them—our obligation to pay for part of Grand Gulf was inconsistent with Mr. Lewis' 1977 commitment. Mr. Norton was involved in those conversations, and you made a reference to that in your opening statement.

Then AP&L raised this issue with the other Middle South Utilities Co., and all the other Middle South Utilities Co. agreed that Arkansas should not have to pay for Grand Gulf. When the new contract was filed with FERC for approval, other State parties—not the utilities—objected to it and asked that it be set aside and that Arkansas be charged for electricity and powerplant capacity it does not need, will not use for more than a decade, cannot afford, and never agreed to pay for.

The FERC staff and an administrative law judge agreed to impose that burden on us, and to add to the injury, the staff has recommended that the system agreement be rewritten to require us, in effect, to pay for one-third of the Waterford plant in Louisiana which is actually owned by Louisiana Power & Light Co., and dedicated to the use of LP&L's customers. And the staff recommended that, I might add, with no initiative from any of the Middle South Utilities companies.

Thus, from our point of view in Arkansas, there are two culprits, if you will, in our present predicament: Middle South Utilities, which so cleverly evaded State jurisdiction in the first place; and, perhaps more importantly, the staff and the administrative law judge of the FERC, who not only have permitted the evasion to stand, but are determined to invalidate agreements among Middle South Utilities operating companies which allocate the costs of these out-of-State plants to the Louisiana and Mississippi companies and none to Arkansas.

We are diligently fighting to preserve our regulatory rights and economic well-being. We hope the full FERC will reverse its staff and its administrative law judge. If we lose there, we will go to court; but we need the help of Congress.

I first tried to get President Reagan or his Secretary of Energy to make an on-the-record statement of support for the position that all four States in this case should retain their rights to decide whether the ratepayers in those States should pay for Grand Gulf or Waterford. The entire National Governors' Association, Republicans and Democrats alike, agree with this position. Several hundred thousand Arkansans sent postcards to the President asking that he make a statement of policy. Although the President has never answered my letter, he did say in an interview that he couldn't intervene because the FERC is a quasi-judicial regulatory body. Clearly, however, the administration can make an on-the-record statement before a regulatory agency like FERC. Energy Secretary Hodel himself has already intervened in the Grand Gulf proceedings before the Mississippi Public Service Commission. The President has been advised wrongly and the rest of the administration is hiding from this very important State-Federal issue. Now we can only turn to Congress for help.

I submit that you can do four things.

First, the Public Utility Holding Company Act of 1935 must be strengthened, not repealed. The Securities and Exchange Commission, which enforces the act, should be required to seek from State utility commissions an affirmative statement that State security laws are either inapplicable to certain utility transactions or that a utility has complied with such laws.

Second, the Federal Power Act should be amended to require that questions of powerplant need and the availability of economical alternatives should be decided by the State regulatory commission of each State affected before a utility holding company can get Federal approval to build a plant or to charge an operating company in a given State and its ratepayers for a plant. Utility holding companies cannot be allowed to insulate themselves from State regulation by forming multistate generation subsidiaries to build powerplants. It may be necessary to ban such subsidiaries altogether.

But at a minimum, joint ownership of generating facilities should be conditioned upon prior receipt of State approvals for participation, construction and financing. And these requirements should apply even where the ownership is apportioned in another form, such as wholesale electricity contracts with energy and capacity charges.

Third, involuntary systemwide cost equalization should be prohibited.

Fourth and finally, Federal law should explicitly recognize the right of State regulatory commissions to refuse to pass along to their ratepayers all or part of the costs of powerplants which the State has not given prior approval to based on need, reasonableness of costs, or other legitimate considerations. In this case, the States and various State intervenors are pointing the finger at each other with Middle South Utilities effectively sitting on the sidelines, watching the States fight among themselves to see which State will be the bigger victim. The assumption is that even though most of Grand Gulf may be unneeded by any State, all of it will be paid for by ratepayers. Yet it seems only fair that Middle South Utilities stockholders should share the responsibility and assume some of the liability for investments that have gone sour. Utility investments of this magnitude cannot be risk-free. At the very least, the Federal Government should not be bailing out utilities at the ratepayers' expense and over the expressed opposition of State regulatory bodies.

It is important to recognize that it is precisely because the States and their regulators are doing their jobs and doing them better and more aggressively than ever before, that the utilities are now clamoring to be regulated by the Federal Government. Congress should reaffirm and clarify the longstanding demarcation between State and Federal regulation and, once and for all, prohibit transparent attempts to circumvent the States' traditional regulation of powerplant construction and local utility rates.

Thank you very much.

Senator **Bumpers**. Thank you very much, Governor.

[The prepared statement of Governor Clinton follows:]

STATEMENT OF HON. BILL CLINTON, GOVERNOR OF THE STATE OF ARKANSAS

On behalf of all the people of Arkansas, I would like to express my appreciation to you, Senator Bumpers, also to Senator Lowell Weickler, and the entire U.S. Senate Committee on Small Business for arranging to conduct this hearing in Arkansas. Small businesses and farms are vital to the economy of Arkansas, and the *Grand Gulf* case, with its spector of dramatic electric rate increases, threatens the very existence of our State's small businesses and farms. We welcome and solicit your assistance in resolving this crisis and in helping to preserve our economic viability.

Grand Gulf may very well be the single greatest threat ever to the economic future of Arkansas. If we lose both cases pending before the Federal Energy Regulatory Commission and are required by FERC to pass on costs to the ratepayers of Arkansas Power and Light Co., rates could go up as much as 50 percent for the majority of the electric customers in Arkansas.

The future economic and industrial development of Arkansas depends greatly upon the availability of competitively priced power sources. Our farmers need and require reasonably-priced electricity in order to irrigate and process their crops. The poultry industry must have reasonably priced electricity to maintain its operations. The timber industry uses tremendous amounts of electric energy.

The success of small businesses depends to a large extent on the continued success and expansion of our industrial and agricultural operations. Small businesses provide necessary and essential support products and services for industrial and agricultural concerns as well as for the people who earn their livelihood working in these areas. Without a healthy industrial and agricultural base, small businesses will suffer.

Arkansas has been at or near the bottom rung of America's economic ladder since World War II. We experienced a surge of prosperity in the 1960's and 1970's which was cut short by inflation and recession. We are moving forward again now, but not without problems. Last year our State ranked in the top five States in percentage growth of new jobs. In the first quarter of this year we were in the top five in percentage growth of personal income. Yet our unemployment rate remains above the national average, largely because of plant closings in industries very vulnerable to foreign competition. This vulnerability has increased dramatically in the past 2 years because of the greatly overvalued American dollar. Federal policies have contributed to this overvaluation, and our farmers and import-sensitive industries have paid the price. If Federal policy also requires Arkansas to pay for powerplants in Mississippi and Louisiana that we don't need, never agreed to pay for, and can't afford, then those who are already in trouble may be ruined and the growth sectors of our economy will be stunted. All our efforts to improve the education and skills of our people and to aggressively promote economic growth and opportunity will be undermined. That is the message our people will bring to you today.

If Arkansas is saddled with devastating increases in electric rates because of federal decisions on the Grand Gulf and system average costing issues, we can realistically expect to see many industries drop off our present electrical systems. Other plants will shut down and unemployment will rise. Obviously we would be unable to attract new industry to take the place of those lost. A significant decline in industrial use would immediately shift much of the present cost of electric generation now borne by industry to all other ratepayers including small businessmen, farmers, working men and women, and senior citizens who are already struggling to make ends meet.

The FERC staff and an administrative law judge have initially concluded that Arkansas must foot the bill for the troubled Grand Gulf nuclear plant in Mississippi which has cost over four times the original estimate. Also, the staff of FERC has recommended that we should pay for a portion of another expensive plant in Louisiana under proposed changes in the system agreement among the Middle South Utilities operating companies. Never before has the FERC decided that the people of any state must purchase power from or pay for an unneeded foreign power plant. The determination of need for new domestic power plants has always been within the sovereign power of each state. In this instance, permission to build the Grand Gulf power plant was never sought form nor given by the Arkansas Public Service Commission, which is statutorily charged with the responsibility to make such determinations.

The Congress clearly never intended for the FERC to interfere with the rights of the individual states to regulate such matters. Section 201(a) of the Federal Power Act sets the jurisdictional boundaries of the FERC, providing that its regulation shall "extend only to those matters . . . not subject to regulation by the states" and further "shall not have jurisdiction, . . . , over facilities used for the generation of electric energy . . .". The legislative history of the Federal Power Act clearly indicates that Congress, in formulating the act, intended only to fill existing gaps in the regulatory scheme; it did not intend to remove traditional State regulatory authority.

Why then is the FERC considering an order assigning the costs of these plants to Arkansas and what did Middle South Utilities do to take the Grand Gulf case away from the States and give it to the Federal Government?

Historically States have decided whether a utility could build a power plant and then whether its ratepayers would pay for the plant based on consumer need, reasonableness of cost, and compliance with State laws. The Federal Government, on the other hand, has exercised jurisdiction over sales of electricity in interstate commerce and/or at the wholesale level.

In 1973, Middle South began the process of putting the Grand Gulf plant under Federal jurisdiction by transforming the power plant construction issue into one of wholesale electricity sales in interstate commerce. This is how it happened: Middle South Utilities created a subsidiary, Middle South Energy, whose sole asset would be Grand Gulf. Who would pay for Grand Gulf? The operating companies. How would they pay? Through contracts for the sale of electricity that are wholesale in nature, most of which are in interstate commerce.

My first contact with this arrangement came in early 1977. As Attorney General, I asked MSU's president, Floyd Lewis, in a hearing before the Public Service Commission whether Arkansas would have to pay for a portion of Grand Gulf. He said we would because we would need it. I asked if we would have to pay if we didn't need it. He said we would not. We then continued to build power plants until we had a surplus of capacity within Arkansas. However, in 1980 documents filed with the Securities and Exchange Commission revealed that in fact AP&L was to be assigned 17 percent of Grand Gulf even though we had a surplus of power plant capacity. I met with AP&L representatives who agreed with me that our obligation was inconsistent with Mr. Lewis' 1977 commitment. Then AP&L raised this issue with the other MSU companies and all of them agreed that Arkansas should not have to pay for Grand Gulf. When the new contract was filed with FERC for approval, other state parties objected to it and asked that it be set aside and that Arkansas be charged for electricity and power plant capacity it does not need, will not use, cannot afford, and never agreed to pay for.

The FERC staff and an administrative law judge agreed to impose that burden on us and, to add to the injury, the staff has recommended that the system agreement be rewritten to require us, in effect, to pay for one third of the Waterford plant in Louisiana which is actually owned by Louisiana Power and Light Co. and dedicated to the use of LP&L's customers.

Thus, from our point of view there are two culprits: Middle South Utilities, which so cleverly evaded state jurisdiction in the first place; and the staff and administrative law judge of the FERC, who not only have permitted the evasion to stand but are determined to invalidate agreements among the MSU operating companies which allocated the costs of these out of state plants to the Louisiana and Mississippi companies.

We are diligently fighting to preserve our regulatory rights and our economic well-being. We hope the full FERC will reverse its staff and its administrative law judge. If we lose there, we will go to court. But we need the help of Congress.

I first tried to get President Reagan or his Secretary of Energy to make an on the record statement of support for the position that all four states in this case should retain the right to decide whether their ratepayers should pay for Grand Gulf or Waterford. The entire National Governors' Association agrees with this position. Several hundred thousand Arkansans have sent postcards to the President asking that he make a statement of policy. Although the President has never answered my letter, he did say in an interview that he couldn't intervene because the FERC is a quasi-judicial regulatory body. Clearly, however, the administration can make an on the record statement before a regulatory agency like FERC. Energy Secretary Hodel himself has already intervened in the Grand Gulf proceedings before the Mississippi Public Service Commission. The President has been advised wrongly and the rest of the administration is hiding from this very important state-federal issue. Now we can only turn to Congress for help.

You can do four things:

1. The Public Utility Holding Company Act of 1935 must be strengthened, not repealed. The Securities and Exchange Commission, which enforces the Holding Company Act, should be required to seek from state utility commissions an affirmative statement that state security laws are either inapplicable to certain utility transactions or that a utility has complied with such laws.
2. The Federal Power Act should be amended to require that questions of power plant need and the availability of economical alternatives to be decided by the state regulatory commission of each state affected before a utility holding company can get federal approval to build a power plant. Utility holding companies cannot be allowed to insulate themselves from state regulation by forming multi-state generation subsidiaries to build power plants. It may be necessary to ban such generation subsidiaries altogether. At a minimum, joint ownership of generating facilities should be conditioned upon prior receipt of state approvals for participation, construction and financing. These requirements should apply where the ownership is apportioned in other forms, such as wholesale electricity contracts with energy and capacity charges.
3. Involuntary system wide cost equalization should be prohibited.
4. Finally, Federal law should explicitly recognize the right of state regulatory commissions to refuse to pass along to their ratepayers all or part of the costs of power plants which the state does not approve based on need, reasonableness of costs or other legitimate considerations. In this case, the states and various state intervenors are pointing the finger at each other with Middle South Utilities effectively sitting on the sidelines, watching the states fight among themselves to see which State will be the victim. The assumption is that even though most of Guard

Gulf may be unneeded by any state, all of it will be paid for by ratepayers. Yet it seems only fair that MSU stockholders should share the responsibility and assume some of the liability for investments that have gone sour. Utility investments of this magnitude cannot be risk-free. At the very least the Federal Government should not be bailing out utilities at the ratepayers expense and over the opposition of state regulatory bodies.

It is important to recognize that it is precisely because the states and their regulators are doing their jobs and doing it better and more aggressively than ever before that the utilities are not clamoring to be regulated by the FERC. Congress should reaffirm and clarify the longstanding demarcation between state and federal regulation and once and for all prohibit transparent attempts to circumvent the states' traditional regulation of power plant construction and local utility rates.

Thank you very much.

Senator BUMPERS. Governor, let met ask you first of all, is it presently the State's intention to appeal the decision by the Federal judge that FERC has exclusive jurisdiction over this case? Is that on appeal now?

Governor CLINTON. Yes.

Senator BUMPERS. Second, I know that you're familiar with the Public Utility Holding Company Act of 1935, and I think that Congress really was fairly visionary back then in anticipation of this very thing, because they passed that law; and in that law it says specifically that a public utility holding company may not build generating capacity. It may own subsidiaries, as Middle South does, four subsidiaries. And Middle South in this case, of course, in order to circumvent that law—and it seems to me that it is a clear circumvention of the law—formed a subsidiary for one sole purpose, and that was to build Grand Gulf, in order to violate that law. Do you agree with that?

Governor CLINTON. Well, let's look at it this way. If they created a separate company, which the company says—which Middle South says—they did for financing reasons, as you said in your opening statement, and that company in effect owns only a powerplant and has no customers, then obviously every single sale of electricity from that company would be a wholesale sale, and wholesale sales are under Federal jurisdiction. So it seems to me to be a way that anybody could get out of it. I mean, you might argue that even an intrastate company could set up a subsidiary and build a powerplant to sell power to itself and go to FERC and say: "Well, I'm sorry, this company won't have any retail customers, it's only wholesale, so would you please approve of it." And I think it's very important—you know, the Federal Government can't be an expert on everything. The States generally have regulatory commissions that have become very sensitive in the last 10 or 15 years to this whole question of powerplant siting—what are the economics of it, what do you have to look into, how do you make these decisions. Historically, the Federal Government has not had to make those decisions, and so the people who go to work for FERC or any of these other agencies are just not as good at it. I don't think there's any question that that happened. Mississippi Public Service Commission, if you go back and review the record there, essentially gave them a building permit based on the representation that they would have to pay for about 19 percent of Grand Gulf and, of course, it looks like they're going to be stuck for about 31 percent of it if the case goes through in its present posture.

Senator **Bumpers**. Assume that Mississippi Power & Light had been able to finance the plant as originally planned, even though we now know that it could not, would Arkansas' purchases be considered a wholesale sale subject to FERC jurisdiction?

Governor **Clinton**. Yes; but then, you see, we would not have done it unless we needed it, and we would have bought it on negotiated terms——

Senator **Bumpers**. As we have in the past?

Governor **Clinton**. Yes, yes, and, of course, those things were done when they were presumably in the mutual interests of the two companies. But when Mr. Lewis came here in 1977, he said, you know, the reason we were building all these powerplants here was so that we could become self-sufficient because it was no longer economical for our neighbors, primarily in Louisiana, to sell us gas that was generated by what had been up to that time—excuse me, electricity—that had been generated up to that time by cheap natural gas, because the price of gas was going up, and we thought—we thought wrongly, but we thought—in the late 1970's, the supply was going down.

Senator **Bumpers**. I'm sure that your figures are probably more accurate than mine. I had understood that the original cost of this plant was anticipated to be $400 million.

Governor **Clinton**. That could be right. I thought it was $650 million, but it could have been revised——

Senator **Bumpers**. We'll try to clarify the record on that before the day is over; but of course, as you know, it's well over $3 billion now.

Governor **Clinton**. I think the important thing on that is, again, let's say you could go back to square one and you could divide what was responsible for the cost overruns. To what extent were those things unforeseeable? To what extent can you not blame Middle South or any of the management for Three Mile Island, the new changes that had to be taken after that? And to what extent were those costs avoidable? Let me just ask you that—if this case—of FERC upholds this case, who gets to decide that? Can we still throw out costs here at the State level that we consider to be excessive? Can we say, well, you may stick us for 17 percent—let's just take 17 percent of the costs of Grand Gulf—but you had a quadruple or quintuple cost overrun, and we consider that only half of that cost overrun was justified, so we're still not going to give you as much as you ask for. Do we retain the jurisdiction to do that? Or did the Federal Government—if they uphold the staff recommendations, does FERC in essence say, not only do you have to pay, you've got to pay at the price they say? Because FERC doesn't do that.

There are a lot of these questions that are unclear. You know, even though the nuclear plant at Russellville was the least expensive nuclear plant ever built in this country, the Public Service Commission still threw out over $20 million of the construction costs that AP&L requested on the grounds that they are unjustified. Do we retain the right to do that in this case? It appears, from looking at it and from the position that's been taken by the other parties, that that's a question within the Federal jurisdiction too, and they are plainly not able to make that decision.

Senator **Bumpers**. I think there's a rule—and Chairman Johnston's here, and he can clarify this for us later—but I think there's a rule at both the Federal and the State level that allows both regulatory agencies to disallow what they call costs not prudently incurred. In other words, the cost to be passed on to the ratepayers has to be reasonably incurred, is that not correct?

Governor **Clinton**. Yes, there is. But if the Federal Government doesn't do it, if FERC doesn't do it, does that mean they have preempted the right of the States to do it in this case?

Senator **Bumpers**. Has that point been raised in the FERC briefs, or do you know?

Governor **Clinton**. I don't know. Ask Dr. Johnston; he'll know. If we do it—suppose we disallowed half of it, or two-thirds of it, or three-fourths of it—I mean, you've got a lot of play there, since the cost overrun is so massive. Would they say, well, that's in effect negating the FERC ruling? I mean, it seems to me that the States have developed expertise in this area, know that they're doing, and now have been deprived of the right of doing it in our State. And Arkansas may be just the first State where this could occur because, as you know, there are lots of other plants out there hanging fire with construction costs that are astronomical.

Senator **Bumpers**. Governor, are you personally familiar with the settlement offer that Mississippi Power & Light and Arkansas Power & Light submitted to FERC?

Governor **Clinton**. Yes.

Senator **Bumpers**. As I understand that, they are saying that for the first 10 years under that settlement offer, rates in Arkansas cumulatively would go up 6.8 percent, much less than an average of 1 percent a year. And I saw where the president of AP&L said the other day that the thing had been so politicized that he thought that offer was dead. I don't really understand why it would be; I mean, the nature of politicians is to be critical most of the time anyway. We are all guilty of that—but my point is, there are four things that can happen in this case, and three of them are bad. And the only thing I can say past that is the fifth thing would be for FERC to approve the settlement offer.

If you analyze the four possibilities—if we won the case outright, that's the best of all possible worlds for us. If FERC imposes 17.1 percent of the costs on us in accordance with the original agreement, that's going to be pretty tough; if they impose 36 percent of the costs on us, that's going to be much tougher. But if we lose the systemwide case, then, of course, that's the very worst of all possibilities.

Now, of course, in trying lawsuits I used to settle lawsuits for less than I thought I was entitled to, but as much as I thought I was going to get, depending on my client. I always had to turn to my client for advice and guidance on whether they wanted to accept the settlement, but in this particualr case, No. 1, do you think it is based on reasonable assumptions? No. 2, do you think it ought to be considered seriously by FERC?

And, incidentally, there's one other additional element that I understand is in the settlement offer, and that is that after 10 years, then the imposition of increased cost, together with the fact that AP&L will be phasing out some other plants, that cost would actually begin to go down in the second decade. It would go up a total of 6.8 percent cumulatively the first 10 years, less than 1 percent a year, and over the next 10-year period would go down. Do you think that offer has merit?

Governor CLINTON. Well, first of all——

Senator BUMPERS. Excuse me for interrupting you, Governor, but if you'd like to preface that by saying that do you think that that is based on wrong assumptions or that there isn't any way, for example, for the Public Service Commission, or FERC, or anybody else to lock them in to that; that's a separate issue. I mean, it might change all of our thinking a little bit if we knew that they could be held to that over the next 20-year period, and that the figures submitted in this settlement offer would be binding over the next 20-year period. But your general comments on it?

Governor CLINTON. Well, first of all, I think that AP&L presented the offer in good faith and believes that it is unlikely that we'll be 100-percent victorious because the staff is against us and the administrative law judge is against us on Grand Gulf. There's been no ALJ ruling on the system averaging case.

Second, if the numbers were right, first of all, and if we knew we could get that settelement, second, anybody would have to consider the question of whether 1- to 3-percent increase—you know, there have been different arguments about how many it would be a year—for sure would be better than the possibility of an immediate 25- to 50-percent increase. And that is why I encouraged the utility, if it believed that settlement was a reasonable possibility, to go on and offer it, you know, and encouraged them to do it, and said so publicly. I think—you say, do I think FERC should seriously consider it. I don't think there's any question that they will look at it because they've got the staff recommedation that, you know, we should be, in effect, required to pay for significant portions of both those other States' plants. So I think they will look at it.

We were advised in the strongest possible terms by our Washington counsel not to go into the settlement offer for one or two reasons. One, if all of us changed our positions and said, they, we'll pay something, and our adversaries didn't change their positions, which is that we ought to pay for what we know is an exorbitant amount that is, if we came off the bottom and they didn't come off the top—we were afraid we'd just narrow the scope of compromise for FERC, if that's what they're going to do.

Second, we were reluctant to go into a settlement conference which, as I understand it under the rules of FERC, would permit all issues in both cases to be resolved without a lot deal on the *System Averaging Costing* case which is, of course, a separate and independent case and one that, as you've pointed out today, could cost us even more. That's why we didn't participate in the compromise. It didn't have anything to do with the politics of it, but what we thought would actually strengthen the likelihood of getting a better settlement for the people of our State. But I don't think there's anything wrong with AP&L presenting it.

Let me just say one other thing. It's obvious that—and I tried to make it clear in this testimony—that I consider, if you look at who did what, the Federal regulators have done things in agreement with parties in other States which are far more threatening to us in the short run than anything that the management of AP&L did. But they have to take the position—they work for Middle South that the ratepayers have to pay for everything, whereas I'm free to say to you that I think the shareholders should bear some responsibility for an investment that, No. 1, is not entirely prudent, as it turns out; and No. 2, was organized so that they wouldn't have to deal with the Arkansas Regulatory Commission.

Senator **Bumpers**. I must say, I certainly share your views on that latter idea.

Well, Governor, I appreciate very much your coming down to be with us. You've been on the cutting edge of this, perhaps as knowledgeable or more knowledgeable than anybody in the State including maybe even Chairman Johnston back there. I thank you very much for coming down. It was a fine statement, and we appreciate having you here.

Governor **Clinton**. Thank you very much, Senator.

Senator **Bumpers**. Our next witness will be Congressman Anthony.

STATEMENT OF HON. BERYL ANTHONY, JR., A U.S. REPRESENTATIVE FROM THE STATE OF ARKANSAS

Representative **Anthony**. Thank you, Mr. Chairman. I would ask that my entire statement be presented for the record. I would like to summarize the parts that I think are the most pertinent to my particular part, as far as participating in these proceedings.

But I would like to join Governor Clinton in congratulating you for bringing this isue to the people in Arkansas. I think you're doing a great service for our State in holding this hearing to allow a complete record to be compiled regarding the legal and historical origins of the issue, and the potentially disastrous impact if decisions adverse to Arkansans should be put into place by FERC.

An adverse decision could require Arkansas Power & Light Co. to assume about $900 million of the capital costs of Grand Gulf by requiring AP&L to purchase 36 percent of the capacity of this "white elephant." The issue in this case is whether AP&L ratepayers, who have already seen huge increases in their rates to pay for the six plants that you previously mentioned, can be forced to purchase power from Grand Gulf which is neither wanted nor needed. The issue is also whether a Federal agency will sanction a major change in the rules of the game, while ignoring the intent of Congress. In the other case before FERC, known as the *System Agreement* case, even more profound implications arise which threaten the future of Federal-State relations and the constitutional doctrine of federalism, as well as the future of the Arkansas economy.

The heart of the *System Agreement* case is whether Arkansas Power & Light Co. even exists, or whether it is merely a tool of an entity called Middle South. Of more significance is whether the Arkansas Public Service Commission and the public service commissions around the country will continue to exercise any significant role in the approval of powerplant construction, the setting of electric rates, or any other meaningful aspect of utility regulation. Also at issue is whether Arkansas ratepayers will be robbed of the benefits from AP&L's past construction program which led to the current adequate supply of electric power in Arkansas.

Since the nature of the Middle South agreement is key to this dispute, let us look at that arrangement as it has historically operated. Each has been subject to its own body of State regulation, and each company had gone to its own State public service commission for approval of construction over the years. There was no systemwide decision to build Arkansas nuclear 1, or the AP&L coal-fired plants, and there has been no systemwide agreement to construct or absorb the costs of Grand Gulf.

Nobody at AP&L and no Arkansas ratepayer attempted to force those costs to be borne by others outside Arkansas. Yet, the implications in the administrative law judge's decision would force both coercion and confiscation on the electricity users of Arkansas on a grand scale.

It would also increase AP&L's costs by at least $3 billion over the next 10 years, if passed on to ratepayers in Arkansas. It would mean a 50-percent increase for Arkansas ratepayers and put many businesses of Arkansas out of business.

The intent of Congress in the passage of the Federal Power Act was not to remove the role of the States in the approval of powerplant construction and in the setting of intrastate rates. Nor was it to force ratepayers in one jurisdiction to absorb the costs of expensive power or share the costs of cheaper power with those in another. The proponents of systemwide costing who want to force Arkansas ratepayers to carry a major portion of their costs for electric power in the future have based this hope on the concept that AP&L and the other member companies have lost their identity and are only instruments of Middle South. To accept this doctrine is to accept the irrelevance of States and local governing units in the Federal system. It is to install and concentrate all power in a six-man, unelected body, with near absolute power in terms of utility regulation—the Federal Energy Regulatory Commission. Ratepayers in Arkansas and Missouri absorbed at least $1.4 billion in rate hikes that would otherwise have been the responsibility of the ratepayers of the other companies under the scheme now advanced by Louisiana and other interests.

What is involved here would be nothing less than a major change in the rules of the game which would grossly alter the intent of Congress and the traditional interpretation of utility law. Despite the clearly expressed congressional intent, the Commission would usurp the power of the States to set local rates, regulate the industry, and balance competing costs and benefits from future construction. Congress clearly intended FERC and its predecessor agencies to be limited to specified interstate responsibility. I cannot believe that the Commissioners, who were appointed by President Reagan as part of his program to decentralize Federal power and bring decisionmaking back to the State and local areas, would vote to overturn history and precedent in this case. To do so would invalidate the system agreements which have linked AP&L to its fellow companies for more than 30 years; it would place an entirely new interpretation on the Federal Power Act which would be subject to judicial challenge; and it would be a repudiation of everything the Reagan administration purports to stand for.

In conclusion, Mr. Chairman, I am giving the benefit of the doubt at this time to the intelligence and fairness of the FERC Commissioners. However, if I am wrong and the decisions go against Arkansas, I am sure you and I and the rest of the Arkansas delegation, along with the Governor, the PSC, and others will be prepared to take this case all the way to the Supreme Court, if necessary. In addition, I will recommend that we explore all legislative remedies to this problem as well. Many other Members of Congress will not be content to accept a massive transfer of power to a Federal agency which a loss of our position would imply. We have many potential allies in Congress.

For that reason, I urge that we remain vigilant and optimistic as we await the decision by FERC. If there is this major historical change, Mr. Chairman, I think that we have many, many potential allies in the Congress to look at strengthening of the Federal laws. And I want to thank you for the opportunity to present my views today.

Senator BUMPERS. Congressman Anthony, I thank you very much for your testimony. I would just make a couple of comments.

[The prepared statement of Representative Anthony follows:]

STATEMENT OF HON. BERYL ANTHONY, JR., A U.S. REPRESENTATIVE FROM THE STATE OF ARKANSAS

Mr. Chairman, I want to begin by expressing my sincere thanks to you for holding this hearing. There is not any issue or even any combination of issues which can approach in importance the pending decision by the Federal Energy Regulatory Commission in regard to allocation of power and costs in the Middle South system. You are doing a great service for our state in holding this hearing to allow a complete record to be compiled regarding the legal and historical origins of this issue, and the potentially disastrous impact if decisions adverse to Arkansas should be put into place by FERC.

As you know, the Arkansas Congressional delegation and the Missouri congressional delegation jointly filed comments on March 5 of this year before FERC, objecting to the proposed settlement of the *Grand Gulf* case. An adverse decision could require Arkansas Power & Light Company to assume about $900 million of the capital costs of Grand Gulf by requiring AP&L to purchase 36 percent of the capacity of this white elephant. These costs could be passed on to AP&L customers, even though the AP&L service area has no current need or long-term potential demand for the power. In fact, the two nuclear plants and four coal field plants now operated by AP&L will more than meet our needs for the foreseeable future. The issue in this case is whether AP&L ratepayers, who have already seen huge increases in their rates to pay for the six plants, can be forced to purchase power from Grand Gulf which is neither wanted nor needed. The issue is also whether a Federal agency will sanction a major change in the rules of the game, while ignoring the intent of Congress.

In the other case before FERC, known as the "System Agreement Case," even more profound implications arise which threaten the future of Federal-State relations and the constitutional doctrine of federalism, as well as the future of the Arkansas economy.

The Arkansas and Missouri congressional delegations filed comments in the "System Agreement Case" on March 22 of this year. The gravity of the proceedings in this case may be the most significant issue in the modern history of the Federal Energy Commission and its predecessor, the Federal Power Commission.

The heart of the "System Agreement Case" is whether Arkansas Power & Light Company even exists, or whether it is merely a tool of an entity called Middle South. Of more significance is whether the Arkansas Public Service Commission and public service commissions around the country will continue to exercise any significant role in the approval of powerplant construction, the setting of electric rates, or any other meaningful aspect of utility regulation. Also at issue is whether Arkansas ratepayers will be robbed of the benefits from AP&L's past construction program which led to the current adequate supply of electric power in Arkansas.

Since the nature of the Middle South arrangement is key to this dispute, let us look at that arrangement as it has historically operated. The system has operated on the basis of mutual cooperation to share reserves since 1951. However, each member company has operated independently in terms of its service area and has been governed by its own board of directors. Each has been subject to its own body of State regulation, and each company has gone to its own state public service commission for approval of construction over the years. There was no system wide decision to build Arkansas Nuclear One, or the AP&L coal-fired plants, and there has been no system wide agreement to construct or absorb the costs from Grand Gulf.

In fact, there is no evidence in the entire history of Middle South that any member company could be forced to accept a decision detrimental to it. Yet this is precisely what the Louisiana and Mississippi proposals would do. When AP&L had to seek large rate increases after the construction of Arkansas Nuclear One, Louisiana was continuing to benefit from cheap natural gas. Nobody at AP&L and no Arkansas ratepayer attempted to force those costs to be borne by others outside Arkansas. Yet, the implications in the administrative law judge's decision would force both coercion and confiscation on the electricity users of Arkansas on a "Grand" scale.

If the proposal from Louisiana should be allowed to stand, it would create a precedent never before seen in American utility regulation. It would also increase AP&L's costs by at least $3 billion over the next 10 years, if passed on to the ratepayers in Arkansas. It would force the aquisition of electric power which is unwanted, unneeded and grossly expensive due to the massive cost overruns of Grand Gulf. It would mean a 50 percent rate increase for Arkansas ratepayers and put many businesses of Arkansas out of business.

I believe that the law established in the Federal Power Act does not permit such an unjust outcome. The intent of Congress in the passage of the Federal Power Act was not to remove the role of states in the approval of powerplant construction and in the setting of intrastate rates. Nor was it to force ratepayers in one jurisdiction to absorb the costs of expensive power or share the costs of cheaper power with those in another. The act of power pooling to maintain reserves as economically as possible to all companies does not create a firmly locked, unitary system either. If the Middle South Companies are not to be viewed as a confederation, rather than a solitary unit, then a major principle of American constitutional doctrine involving the federal system and the power of States to regulate their internal affairs must also be abandoned. The proponents of systemwide costing who want to force Arkansas ratepayers to carry a major portion of their costs for electric power in the future have based this hope on the concept that AP&L and the other member companies have lost their identity and are only instruments of Middle South. To accept this doctrine is to accept the irrelevance of States and local governing units in the federal system. It is to install and concentrate all power in a six man, unelected body, with near absolute power in terms of utility regulation—the Federal Energy Regulatory Commission.

I believe that FERC must rule in favor of the position argued by AP&L, the Arkansas congressional delegation, the Governor, the Arkansas Public Service Commission, and the Arkansas Industries. The facts have been laid before the Commission, and they clearly demonstrate that during the entire history of Middle South, the equalization of generating costs has never been a part of any operating agreement among the companies of Middle South. The ratepayers in other jurisdictions have never been asked to share any of the costs of construction in Arkansas. Approval for that construction and rate making as a result of it has always been determined by the Public Service Commission. Ratepayers in Arkansas and Missouri absorbed at least $1.4 billion in rate hikes that would otherwise have been the responsibility of the ratepayers of the other companies under the scheme now advanced by Louisiana and other interests.

What is involved here would be nothing less than a major change in the rules of the game which would grossly alter the intent of Congress and the traditional interpretation of utility law. Despite the clearly expressed congressional intent, the Commission would usurp the power of States to set local rates, regulate the industry, and balance competing costs and benefits from future construction. Congress clearly intended FERC and its predecessor agencies to be limited to specified interstate responsibility. I cannot believe that the Commissioners who were appointed by President Reagan as part of his program to decentralize Federal power and bring decisionmaking back to the State and local areas would vote to overturn history and precedent in this case. To do so would invalidate the system agreements which have linked AP&L to its fellow companies for more than 30 years, it would place an entirely new interpretation on the Federal Power Act which would be subject to judicial challenge, and it would be a repudiation of everything the Reagan Administration purports to stand for.

In conclusion, Mr. Chairman, I am giving the benefit of the doubt at this time to the intelligence and fairness of the FERC Commissioners. However, if I am wrong and the decisions go against Arkansas, I am sure you and I and the rest of the Arkansas delegation, along with the Governor, the PSC and others will be prepared to take this case all the way to the Supreme Court, if necessary. In addition, I will recommend that we explore all legislative remedies to this problem as well. Many other Members of Congress will not be content to accept a massive transfer of power to a Federal agency which a loss of our position would imply. We have many potential allies in Congress.

For that reason, I urge that we remain vigilant and optimistic as we await the decision by FERC.

Senator BUMPERS. I especially appreciate your comments about congressional intent. It seems to me that if we wind up winning this case at any level, at least ultimately winning it, then either FERC or the courts will be saying that Congress has been clear on this matter—they never intended for Middle South to have the right, by subsidiary or otherwise, to build its own generating power and then impose it on their subsidiaries. That's exactly why that provision was put in the Public Utility Holding Company Act for, to prevent that very thing.

Representative ANTHONY. Correct. And you made a statement a while ago, government many times is criticized; but I think, in dealing with a very complicated issue, that Congress did show some very strong, forward-thinking, visionary interpretation of what could and possibly would be a devastating effect on the ratepayers throughout the United States.

I think not only is it critically important for the State of Arkansas, because we have a vested interest here, but it sets a precedent that I promise you can go through all of the industries; because we know that the nuclear power industry is literally on its knees, all the way from what happened to Washington Public Power System [WPPS], out in the Northwest to all of the others. There are massive cost overruns. There are no plants that are being on the drawing boards. If anything, we're going to export our nuclear utility industry overseas where there is still strong demand for it.

Senator BUMPERS. It's small solace to the ratepayers of this State that there are several sections of the country that are in the same predicament that we are right now, with this. I was in Montana about a month ago, and Montana Power & Light is just on the verge of bankruptcy. WPPS, of course, is hopelessly bankrupt. There is a case in Michigan almost precisely like this one; and, of course, you know of Southwestern Power in the southwestern part of our State, which faces similar arguments. So it's become a nationwide debacle.

Representative ANTHONY. Well, I'd like to make one additional comment, Mr. Chairman. The Governor made a very, very interesting point. I wrote a letter several months ago to the Nuclear Regulatory Commission because there had been a study done, and there had been something like 300 defects noted during the course of the construction. And each one of those defects had to be corrected. And therein lies the reason for the tremendous cost overruns. And I think the Governor really put his finger on a very interesting point. If the FERC Commission goes against us, are we going to have an opportunity to say, was this sound construction management or not? And if it wasn't are we still going to have to pay for sloppy workmanship? And I think that's just an intolerable position to put any State through. I mean, you're literally impaled on the horns of a dilemma when you get caught in that type of a circumstance

Senator **Bumpers**. Well, I must say this, and I'm not saying this to politicize the issue—after all, that's what politicians are for, they're supposed to be trying to take care of their people, and I'm not saying this to politicize this—but I still believe that somebody besides the ratepayers ought to have to absorb this cost based on my firm belief about how it all occurred. Having said that, I won't pursue that any further at this point. There will be plenty of others make that point often today, I'm sure.

Representative **Anthony**. Well, I was a practicing attorney before I went to Washington, DC and we know that any time you try to reach a compromise or a settlement you look for every single pocket that you can find to share in those costs.

Senator **Bumpers**. Beryl, I didn't ask you about the settlement offer. Are you familiar with the proposal that——

Representative **Anthony**. I am familiar with it. The lawyers briefed us on it during the course of them talking about it, and I must admit that there was an awful lot of dissension, confusion as to whether or not it would be good or bad because they felt like that it may send the wrong signals if they presented it; yet, they knew that there was always that possibility that if you could do 17 percent versus 50 percent or 36 percent, that that's certainly better off. Yet they had also looked at the possibility of zero. We were advised—my office was advised about it—from our lawyers that represent us, and I can't say——

Senator **Bumpers**. It would be comforting, would it not, to know that FERC was not going to be politically influenced by anybody from Arkansas, but that they were not going to be politically influenced by anybody from any other State either?

Representative **Anthony**. Well, when you add them up, there are more Members of the Senate and Members of the House from other States than there are from Arkansas, and therein lies the——

Senator **Bumpers**. There happen to be more members of the staff from those States, too. [Laughter.]

Representative **Anthony**. Therein lies the problem that we have legislatively also, and I think that's one reason we've got to argue so strenuously before the FERC and rely upon their integrity and rely upon their intelligence and fairness; and again I think that is so critical, why you are holding this hearing—it allows me, as a politician, to say what I have been doing all along. It's going to allow these business people to really lay on the record what the disastrous effects are, and I think that record needs to be made public at some point outside the State of Arkansas.

Senator **Bumpers**. Well, thank you very much. I appreciate your being with us this morning.

Mike Bemis from AP&L is our next witness.

Mike, thank you very much for being with us this morning. We look forward to hearing your testimony.

STATEMENT OF MIKE BEMIS, SENIOR VICE PRESIDENT FOR RATES AND REGULATIONS, ARKANSAS POWER & LIGHT CO., ACCOMPANIED BY JERRY JACKSON, ESQ.

Mr. **Bemis**. Thank you, Senator.

Senator **Bumpers**. Incidentally, Mike, you can proceed either of two ways, if you want to. Your statement will be inserted in the record exactly as prepared. If you would like to summarize or if you want to go through the statement, it's OK.

Mr. **Bemis**. I don't plan to read my full statement. I would appreciate it if those in attendance would give it careful consideration.

I just want to make a few brief comments. I would have to say that, in reading the comments of all the participants in this hearing last night, I was struck by the fact that there was very little that I disagreed with. I think we're all basically trying to get to the truth, get to the facts and to understand what the impact of these two cases—and notice I don't say *"Grand Gulf"*—there are two cases in Washington. Unfortunately, Grand Gulf has become sort of a shorthand for the two cases. They are separate and distinct isses, each with their own consequences. As I understand this hearing today, the intent is to determine what the impact of Grand Gulf would be.

As I stated in my prepared statement, I think the impact of Grand Gulf on AP&L, either under the 17 percent, or the settlement scenario, or the 36-percent allocation that has been ordered by an adminsitrative law judge, has been grossly overstated. I think that overstatement and the rhetoric that has accompanied that overstatement has probably done more to hurt the economic development of the State of Arkansas than will the impact of the decision itself. We are losing industry and jobs today as a result of that cloud of uncertainty, Senator.

I am familiar with several—as a matter of fact, I have worked on several of those industries—who have gone to other States not because electric prices were lower, but because of the concern, the uncertainty of electric cost in the State of Arkansas in the future.

My purpose today is to try to put into perspective the impact of Grand Gulf as best I can. And I will have to say also that I do have a few points on some of the comments that were made earlier, and I'm going to ask Jerry to comment on some of them. I did not get a chance to read Dr. Johnston's statement until first thing this morning, about 8:30, and I haven't had a chance to study it in the detail that I would like to. I will be, in all probability, submitting additional comments in response to his statement. But I will touch on a few areas because they are particularly troublesome, and I think maybe indicative of the type of overdramatization of the impact of Grand Gulf that we're seeing today. I will try to be brief, also.

I would like to start with the level of rates in the State of Arkansas today. Arkansas Power & Light does its own studies, comparing our rates to those in other States. And we did that based on 1983 rates. I realize this is an Arkansas Power & Light study and has to be taken—I've heard it said that Arkansas Power & Light numbers have to be taken with a large grain of salt. But I think this, at least in a range of reason, has been confirmed by other studies performed by the University of Arkansas at Little Rock, studies performed by other companies including Tennessee Valley Authority, and one that I will also share with you today.

But that study, based on 1983 rates, ranked Arkansas—this involves 113 companies across the United States, investor-owned utilities—Arkansas ranked 18th from the bottom overall. We only ranked 48th from the bottom in terms of residential, but our industrial rates ranked 10th from the bottom. There were only 9 utilities out of this 113 utilities that had better industrial rates than Arkansas Power & Light. This was for the year 1983.

Senator **Bumpers**. Who did that study, Mike?

Mr. **Bemis**. We did it internally.

We surveyed 100—I think we sent requests to about 130 or 128 investor-owned utilities, all of whom are members of VEI. We received 113 responses. It was prepared basically using the same methodology as studies that were performed by the University of Arkansas at Little Rock during the last several years.

Senator **Bumpers**. I'm sorry to interrupt.

You said a moment ago—I'm sure I misunderstood you—I thought you said our residential rates were 48th from the bottom, which would make us second highest, the way I interpret that. What did you mean by that?

Mr. **Bemis**. We were 48th out of 113, going from the bottom to the top.

Senator **Bumpers**. Oh, 48th from the bottom out of 113?

Mr. **Bemis**. That's correct, Senator.

Overall, we were 18th from the bottom of the 113——

Senator **Bumpers**. Averaging industrial and residential and commercial?

Mr. **Bemis**. That's correct.

Senator **Bumpers**. Now, where did you say we were out of 113 industrially?

Mr. **Bemis**. Tenth.

Senator **Bumpers**. Has any independent study verified that, validated that study?

Mr. **Bemis**. The University of Arkansas at Little Rock did a study that came to basically the same conclusion. It was released in March 1984.

Senator **Bumpers**. Have you seen this—I don't know where that map is——

Mr. **Bemis**. From Public Service of Oklahoma?

Senator **Bumpers**. Yes, that was it. Have you seen that, which showed Arkansas the highest rates in about an 8- or 10-State area.

Mr. **Bemis**. In residential in July, that report is grossly misleading. We also have the highest taxes in our electric rates, which they included in their comparison of any of the utilities that were surveyed. They used the month of July, which Arkansas rates have a 20-percent summer-winter differential during the month of July. We have done an analysis that has been shared with the media; as a matter of fact, I see Mr. Buell here—I understand that Mr. Steven Buell with the Democrat has looked at that and is preparing a story—I think that study is grossly misleading. It's the type of thing that causes us a great deal of problems, as you might imagine. Our residential rates don't compare nationally as well as our industrial rates. But overall we compare favorably, and our industrial rates compare very favorably.

Those utilities that are ranked lower than us fall into two general categories. One, there are northwestern companies who have a higher amount of hydropower, and, two, they are companies that are primarily oil and gas who have yet to begin the fuel diversification program that Arkansas Power & Light is now completing.

I have with me—this is a study dated November 27, 1984—this is prepared by the College of Business Administration, University of Arkansas at Fayetteville. It is a study done with a grant from Arkansas Power & Light by the University of Arkansas in cooperation with Arkansas Industrial Development Commission, and it's just been released, and I do have extra copies.

This study also concludes that AP&L's rates are at or below national average. It goes on—I'm paraphrasing, but it says basically, the uncertainty over the issues, the FERC cases, are more of a concern than the level of rates. This study was trying to determine what the imact on industry would be as a result of an adverse decision in *Grand Gulf* or the *System Agreement* case.

It goes on to say that electric energy accounted for an average of 4.58 percent of the total operating costs of manufacturing firms in Arkansas. That ranges from a low 1.2 percent to a high of 6.7 percent. Now, it did exclude Reynolds—I know John Amos is here today—and other aluminim companies because their percentages would be higher than this. They are very electric intensive.

It talked about the factors that encourage industry to come into Arkansas, and basically concluded—and I will try to read it.

> The data does not suggest a catastrophic impact on industry in the State as the results of these issues, primarily because our rates are competitive today and because electric costs do not make up a large portion of the operating costs of the manufacturers in the State of Arkansas.

It talked about the positives, such as the labor force, the quantity, and the work ethic of the labor force of Arkansas. The State's central location and the availability of raw materials. It listed energy positives being availability and cost.

On the negative side, it listed inadequate timber and oil resources, increasing labor and production costs, level of skills of potential employees, and high and uncertain energy costs, and I do have copies of this rather detailed study.

Our electric rates have increased in the State of Arkansas; there is no doubt about it. When we filed this latest case, we went back to 1967, which is the first year that the Consumer Price Index was calculated, and calculate what the electric cost in the State of Arkansas has done. It has risen 205 percent from 1967 to 1984.

To put that into some type of comparison, housing cost nationally has increased 240 percent. Gasoline has increased 266 percent. The cost of living, Consumer Price Index, has increased 213 percent, which tells you that electric prices have increased at a lower rate than the rate of inflation. Social Security benefits have increased 420 percent, and wages in the State of Arkansas have increased 266 percent. So, yes, electric prices have increased, and they have caused a burden on Arkansas citizens, but no more than other increases.

If I can stop there by saying that that is the base that we're starting from. If we're going to try to evaluate the impact of Grand Gulf, we have to have a base to start from, and I would submit to you, Senator, that our rates today—particularly our industrial rates—in the State of Arkansas are, in fact, competitive.

I'll now try to talk about the 36-percent impact of Grand Gulf. We've done some analysis of what the 36 percent impact of Grand Gulf would be. The 36 percent is the impact that—or the level that has been mandated by the administrative law judge. I've tried to prepare some graphs and they are attached to the testimony that I submitted. We tried to prepare them in two ways; one on the basis of a phasein, and another without a phasein where there would be an immediate impact. A nuclear unit has very, very high capital costs, very high front-end costs. Ratepayers pay for net plant, net investment in plant; so as a plant is depreciated, the revenue requirement for that plant declines. In addition, nulcear fuel cost is the lowest of any source of power other than hydro; and therefore, the fuel savings from all allocation of any nuclear plant compared to alternative fuel sources increases over time. So what you see is downward curve.

On this graph you will see that consistent with the information and the documentation, testimony that we have recently filed with the APSC, the impact of a 36-percent allocation of Grand Gulf in the first year is approximately 27 percent. On a phasedin basis, that first-year impact is approximately 5 percent. Rates would increase an additional 6 percent in the second year, 4 percent in the third year, 3 percent in the fourth year, and would decline thereafter.

Over the 10-year period—you see the line come down to the bottom—over the 10-year period, or after the 10-year period, I should say, that allocation of power would actually save Arkansas consumers money. I don't say that to try to justify an allocation of Grand Gulf in any way; our posistion has been, and continues to be, that we should have zero allocation of Grand Gulf. We haven't changed from that. But I did think it's important to put the impacts into some type of perspective. I'm not trying to make a silk purse out of a sow's ear. But the fact that the impact of Grand Gulf has been distorted, I do feel is hurting the State today.

I'd like to also talk about the settlement and the impact of that settlement. There has been, I guess, some ongoing debate in the media and the public about whether or not AP&L's figures are accurate in terms of the impact of this settlement. We have tried to the best of our ability to communicate what the impact would be, to explain that we felt that we were using the best assumptions possible, and that our calculations were as accurate as possible.

You will see, under the settlement, the impact on the first year on a phased-in basis is practically nil. That's because the settlement involves two factors: one, of 17.1 percent allocation of Grand Gulf, and, two, a sale of Independence or our portion of the second unit of Independence to Mississippi Power & Light. We have consummated that sale for 5 years——

Senator BUMPERS. What part of Independence does AP&L own?

Mr. BEMIS. We own 31.5 percent of both——

Senator **Bumpers**. So you're selling your total interest in Independence to Mississippi?

Mr. **Bemis**. Only our interest in the second unit, about 257 megawatts.

Senator **Bumpers**. Is that the one that's just coming on stream right now?

Mr. **Bemis**. Came on this week, yes, sir.

We have consummated that sale for 5 years, and the benefits of that sale, I think, over a 5-year period is about $26 million, which is going to reduce our rates in Arkansas today.

You can see—that's on a phased-in basis. I've also tried to demonstrate graphically what the impact of the settlement would be on a nonphased-in basis. Because of the concern, again, that AP&L's numbers might be in some way misleading, we retained the firm of Frost & Co. Frost & Co. is a company of independent certified public accountants. To the best of my knowledge, they have never in the past done any work for Arkansas Power & Light. They are one of the largest, if not the largest, Arkansas-based accounting firms. That means that they are located here in Arkansas and probably have a greater vested interest in the economy of Arkansas than most other firms. We've asked them to review the settlement, to take all the calculations, to take all the assumptions, to test them independently, and to report on that. Frost & Co., in their report—and we do have copies of this also; their report is dated November 15—has concluded that our calculations and assumptions are accurate and reasonable in this report, and that the 6.8 is a reasonable calculation of the impact of this settlement over the 10-year period.

Additionally, we asked them to look at the sensitivity of that, what it would take to change that percentage by any significant degree, to a significant degree, and also asked them to focus on price elasticity, which I want to comment in just a moment on some of the numbers that Dr. Johnston has used.

We employed Data Resources, Inc. for Arkansas Power & Light. Again, they are one of the largest, if not the largest, firms of economists in the United States, known for their econometric models. So we have some experience with price elasticity ourselves. We asked Frost & Co. to review those calculations and to do whatever work was necessary to satisfy themselves as to what the price elasticity factor of this settlement would be over the 10-year period. They have concluded that the 6.82 percent, adjusted for price elasticity, would become 8.01 percent, so it would move from roughly 6 to roughly 8 percent—roughly 7 to 8 percent.

We also asked them, again, to evaluate the sensitivity of that percentage. They have calculated that if we assume a 10-percent increase in the revenue requirement for Grand Gulf, that would equate to approximately a 1-year delay in that plant which is presently expected to be online in the first quarter of 1985. If there was a 1-year delay in that plant, that the percentage would go from 6.82 to 7.27 percent.

What we're saying is, those percentages just can't be moved that much.

I won't go into any more detail. I do have copies of this report.

Dr. Johnston's statements—and as I say, I've only scanned through it—but it attempts to take—well, let me start at the beginning.

Early on, he makes a statement that these nuclear plants are going to cost $4 billion each. Grand Gulf 1, our portion of Grand Gulf 1, is estimated to cost $3.065 billion; Waterford is going to be less than that. Both of those plants are close enough to completion that we're fairly comfortable with those estimates. We don't believe either one of them will reach $4 billion.

There has been some talk here about imprudence in the cost of nuclear plants. On October 11, 1984, there was an article published in Public Utilities Fortnightly which compared the cost of nuclear plants coming online in 1982 forward—any plants that come on in 1982 and afterward—and obviously Grand Gulf and Waterford were included in those studies. The cost of those plants on a kilowatt basis ranged from approximately $1,000 per kilowatt up to $5,000 per kilowatt, which is Shoreham, up at the Northeast. The average for those 32 plants is $2,700 per kilowatt, which is the approximate cost of both Waterford and Grand Gulf. So yes, these two plants——

Senator **Bumpers**. How does that compare with the plant at White Bluff, for example?

Mr. **Bemis**. White Bluff today—the cost of one unit is $398 per kilowatt, and the second unit is $325 per kilowatt. Independence 1 is $600 per kilowatt; Independence 2 is approximately $525 per kilowatt.

Senator **Bumpers**. That's still a tremendous disparity between coal-fired plants and nuclear, isn't it, Mike?

Mr. **Bemis**. There's no doubt about it, Senator. We could spend hours and days talking about what has caused the cost of nuclear plants to escalate as rapidly as they have. We could also talk about the fuel differential——

Senator **Bumpers**. You need to talk about that on my other committee assignment, which is Energy, not Small Business.

Mr. **Bemis**. Yes, sir. I point that out only to indicate that the cost of these two plants, in comparison to the world, is not unreasonable.

Dr. Johnston goes on to report AP&L's annual profits at $200 million. I wish that they were. Our present estimate is $138 million for 1984——

Senator **Bumpers**. For AP&L?

Mr. **Bemis**. For AP&L. He reports Middle South Utilities at $600 million; again, I wish they were. I don't know what the figure for 1984 would be; it was $378 million for 1983. They're going to have to increase quickly.

Senator **Bumpers**. You mean for 1984?

Mr. **Bemis**. Yes, sir.

He refers to an Alexander Grant study and compares energy costs, and he says that AP&L is higher than Louisiana and some of the other States in this area. I would certainly agree with that. We don't have the gas prices that Louisiana or Texas has. What he failed to say is that energy prices in that same study for Arkansas was 14th lowest in the United States. So, if you're talking about attracting industry, and if you say that energy cost is a primary—

I'm not sure it's the No. 1 determinant, but it is a primary determinant—ranking 14th nationally is not bad.

Senator BUMPERS. Mike, right now, or just an average for the past 6 months what percent of your generating capacity is generated with natural gas, and what is your average cost? I don't want to get into a full-scale PSC hearing here; that's really one of Dr. Johnston's problems, but I am curious about it. That does sort of go to my other committee assignment, which is Energy, and Mike, we may have you up to testify before the Energy Committee this next year.

Mr. BEMIS. I hope not, Senator. [Laughter.]

Senator BUMPERS. Are you telling me you don't enjoy this?

Mr. BEMIS. I do not enjoy this. I don't know how I got involved in this, to tell you the truth. [Laughter.]

For the year to date, 1984, October 1984, virtually no oil; 9 percent was gas; 26 percent was coal; 43 percent was nuclear, and 1 percent was hydro. The relative cost, 41 mils, 4.1 cents, for gas; 22 mils or 2.2 cents for coal, and eight-tenths of 1 percent for nuclear. That's the cost per kilowatt.

Senator BUMPER. Fuel cost?

Mr. BEMISE. Yes, sir.

The part of Dr. Johnston's testimony or his comments that I would really—well, I forgot to say anything—but I really felt compelled to say something about is his analysis about the impact of future electric prices, because I think these are indicative of the type of comments that are causing us a great deal of problems today.

He quotes some rates now which, with all due respect, Dr. Johnston, are slightly high. And then he lists percentages for the full increase of Grand Gulf and for the phased-in impact of Grand Gulf, and those percent range in the 57- to 33-percentage range. And he unfortunately goes on to talk about price elasticity, and he's got the impact of Grand Gulf in our presently filed case up to a 90-percent increase in rates. And I can't get from here to there. We have filed a rate increase in October that would increase rates overall about 15.3 percent. It's $139 million. Dr. Johnston says that the increase is approximately $200 million. A big part of that difference is an impact of the termination of a short-term sale, it's about a 6-percent impact, that was approved by this Commission in our last case back in 1983. My point is, that impact's going to be there anyway. I hope that—because I certainly believe we deserve the entire 15-percent increase that we filed for—but Dr. Johnston takes the 15 percent, and then the 6 percent, and then somehow adds an impact of Grand Gulf and gets to a 90-percent impact. What I'm saying is that the impact of Grand Gulf is not 33 percent, it's not 57 percent. On a phased-in basis it's approximately 5 percent, and it will escalate over time, up to a range of about 17 or 18 percent, and there will be a price elasticity factor. As rates go up, there is a conservation effort, so usage goes down. But I would submit that very few industries in the State of Arkansas can curtail their electric usage by 90 percent. I don't think that's a realistic estimate of any type of price elasticity——

Senator **Bumpers**. Mike, in today's market is it ture that the ratepayers get it either way? If they use it, they have to pay for it, and if they don't use it, they have to pay for it?

Mr. **Bemis**. To some degree, Senator, that is exactly right. Because what happens is that if the demand for electric cost goes down, then the fixed costs that have been put in place to serve those customers will spread over the remaining customers. I would certainly agree with that.

Senator **Bumpers**. You know how strongly I feel about conservation. I've been on the cutting edge of that ever since I've been in the Congress. But it's very difficult for me to continue championing conservation of electricity when I know that people are going to have to pay just about the same rates whether they use it or whether they don't. I mean, we've gotten ourselves into this pickle; and I'm not suggesting what the solution to that is, but——

Mr. **Bemis**. Senator, what we need to do is devise electric rates not only to attract but to retain industry. We need industrial incentive rates in the worst possible way. We need jobs in Arkansas. A utility has a commitment to serve. We have to put in place generating facilities sufficient to make that last kilowatthour of demand, not the first. The first one's easy to meet; it's that last kilowatt hour of demand, when everybody flocks on the switch. But that only occurs once a year. What we need to do is to fill in our valleys. We need to be innovative in the design of industrial rates. We need to work with our industry, which we're trying to do——

Senator **Bumpers**. Do you have time-of-day pricing at AP&L?

Mr. **Bemis**. Yes, sir, we do.

Senator **Bumpers**. How extensive is it?

Mr. **Bemis**. It's been a big controversy with industrial customers. It's rather extensive there; it is not popular at all with residential customers.

Senator **Bumpers**. How do you account for that? Why is it not?

Mr. **Bemis**. Skepticism about the savings; people not wanting to change their lifestyle to conform to electric usage.

Senator **Bumpers**. They don't want to do their laundry at 11 o'clock at night instead of 9 o'clock in the morning, is that what you're saying? [Laughter.]

Mr. **Bemis**. I don't want to do my laundry anytime. [Laughter.] My wife has other ideas occasionally.

Senator **Bumpers**. That was one of the tough things about going from the Governor's office to a Senate office—I had to start doing my own laundry. [Laughter.]

Mr. **Bemis**. Senator, I think I've taken up more time.

I would like for Jerry Jackson—if I could just have another minute—the presentation that I hope that I've made, along with the testimony, is to support that, yes, we are opposed to any allocation of Grand Gulf. It would be bad. It would increase our electric rates, there's no doubt about it. But it will not have the dramatic impact that you may be hearing or may have already heard.

With that I'll close. But a couple of things have been said this morning that were not in the testimony, some by yourself and some by the Governor, that I would like for Jerry to take a moment and discuss.

Senator **Bumpers**. For the record, this is Jerry Jackson, with AP&L.

Mr. **Jackson**. I'm not with AP&L, I'm an outside attorney with Mitchell, Williams, Seeley, Jackson & Tucker law firm.

Senator **Bumpers**. You do work for AP&L?

Mr. **Bemis**. We feel like he's with us.

Mr. **Jackson**. Senator, I would like to take just a few minutes to address for the record certain statements that were made earlier in the proceeding this morning that I think some clarification might be helpful, for the record.

First of all, a statement was made that MSE was created by MSU to evade State regulation. And Arkansas Power & Light Co.—I know that we've addressed that question in a number of forums previously; but I think again, for the record, we must readdress the factors that were considered back in the early 1970's that led to the creation of MSE and why MSC was created.

I think the statements have been made earlier——

Senator **Bumpers**. MSE, for the record—I don't think anybody has said that this morning; you may have—is Middle South Energy, Inc.

Mr. **Jackson**. Right. Middle South Energy, Inc., is the correct corporate name.

In the early 1970's the four companies that make up the Middle South Utilities System—Arkansas Power & Light, Louisiana Power & Light Co., Mississippi Power & Light Co., and New Orleans Public Service—were involved in the construction of new baseload-generated facilities to serve the projected needs of the customers in the three-State area—four States, including Missouri. At that time Arkansas Power & Light Co. had under construction two nuclear plants, Arkansas Nuclear 1 and Arkansas Nuclear 2. Louisiana had under construction Waterford 3, a nuclear plant located in southern Louisiana. In addition, Mississippi Power & Light Co. had plans to construct a nuclear powerplant, as did New Orleans Public Service. Those units are now the two units that make up the Grand Gulf nuclear project.

What occurred is that, as those units were being planned in the early 1970's, it became quite obvious that companies the size of NP&L and NOPSI, which are very small in comparison to LP&L and AP&L, could not finance the construction of a nuclear power project. In looking at the various alternatives that were available, first of all, AP&L was already constructing two nuclear plants of its own and four coal units under planning. It couldn't finance an additional plant separately. LP&L, was constructing Waterford 3; it could not finance that nuclear unit. So a study was made to determine what was the most economic alternative available for the four companies that make up the Middle South Utilities System with respect to the financing of Grand Gulf.

Among the alternatives that were considered, and the one that finally was determined to provide the lowest cost power to the companies, was the creation of a generation subsidiary, Middle South Energy, Inc., and that's primarily due to the fact that the creation of a generation subsidiary can utilize a capital structure utilizing a greater percentage of debt to finance the powerplant than the traditional capital structures that would be used by the operating companies. Therefore, a decision made solely on economic grounds due to the comparisons of the costs to finance the powerplant let to the decision to use a generating subsidiary.

Senator, a statement was made that the creation of MSE, a generating subsidiary by Middle South Utilities, would somehow violate the Public Utility Holding Company Act. I would merely point out for the record that the Public Utility Holding Company Act is administered by the Securities and Exchange Commission, which is given the authority by Congress to administer the provisions of the Public Utility Holding Company Act; and the creation of MSE was done in compliance with the Public Utility Company Act and SEC approval was obtained and received that did authorize the creation of Middle South Energy.

The point I'm making is that the SEC is empowered to administer and enforce the provisions of the Public Utility Holding Act, and MSE was created pursuant to approval of the SEC, which would not have been granted if the SEC was of the opinion that a generation subsidiary has been used for the purpose of financing powerplants on a holding company system. In fact, it was modeled after other generation subsidiaries that had been previously approved by the SEC for other holding company systems, and so I wouldn't say it's widespread practice, but certainly was in common use throughout the country.

Senator BUMPERS. Jerry, the fact still remains, does it not, that Middle South Utilities could not have done this on its own, under the law?

Mr. JACKSON. Middle South Utilities could not. But again, the law does permit, as evidenced by the fact that the SEC did approve the creation of MSE, a generation subsidiary, to construct powerplants, to provide power to operating subsidiaries of a holding company system.

Senator BUMPERS. SEC did approve Middle South Energy, Inc., doing this, but I assume that that was also because nobody challenged it at that time.

Mr. JACKSON. Well, Senator, that——

Senator BUMPERS. It was not challenged before the SEC, was it?

Mr. JACKSON. Senator, there was not challenge made; but I will point out that when the filling was made, it was certainly noticed in public notices. It was not something that was done in secret; it was done as a filing before a Federal agency with public notices that are required under the law to be given to all parties so that if anybody wanted to challenge the proceeding, it certainly was a vehicle there. And I want to also point out that the mechanism utilized to finance Grand Gulf through the creation of MSE was something that was known by the parties, the State commissions. Governor Clinton pointed out today that as early as 1977 he cross-examined Mr. Floyd Lewis, who is chairman of Middle South Utilities, concerning Middle South Energy and the reason for the creation of Middle South Energy.

And so, certainly the State was knowledgeable that Middle South Energy has been created to finance Grand Gulf; and as he pointed out, Mr. Lewis indicated that Arkansas Power & Light Co. would purchase some 38 percent of the power from Grand Gulf.

Senator **Bumpers**. I thought the Governor testified that he said we would not be recognized to take any power we didn't need.

Mr. **Jackson**. Senator, the question was asked: Under the terms of the systems agreement, will Arkansas Power & Light Co. be required to purchase any power if we are not short on the terms of this systems agreement? And the answer was obviously, then, under the terms of the Agreement if you're not short you would not purchase any power under the agreement. And that is correct, and that was a true statement by Mr. Lewis at that time, and factually correct. And I just want to point out that we've not changed the rules; what we filed with the FERC would not have provided for any share of Grand Gulf power for Arkansas Power & Light Co. The officials of Middle South Utilities and the officials at AP&L have not changed the rules; it's the FERC that's changing the rules of the game.

Senator **Bumpers**. In defense of the Governor, there was no reason for him to get excited at that point when the president of Middle South was saying to us, yes; we have done this; we have formed the subsidiary; we are going to build Grand Gulf and are building Grand Gulf with a subsidiary; but don't worry about it, even though we have formed a subsidiary to do it, because you're not going to be required to take any of it anyway if you don't need it or don't want it. I mean, that certainly wasn't calculated to raise a red flag to anybody, was it?

Mr. **Jackson**. Senator, I would only point our again that the concern now is addressed to the possibility of AP&L being required to take 36 percent of the power of Grand Gulf. Again, the record in January 1977, the cross-examination of Mr. Floyd Lewis by the Governor—then Attorney General—Bill Clinton, was that AP&L under those forecasts would be taking 38 percent of the power of Grand Gulf. And the question did arise, what if you don't need it? And Mr. Lewis responded that under the terms of the agreements, that if AP&L was not short under the terms of the agreements, then it would not take it. And again, that has been the provisions of the agreements. But what I think ought to be made clear is that——

Senator **Bumpers**. All I'm saying is that in light of that answer, though, there was no reason for us to challenge—then-Attorney General Clinton or anybody else—to challenge the right of Middle South to form a subsidiary and go to the SEC and get permission to use that subsidiary for financing Grand Gulf.

Mr. **Jackson**. Senator, the point is that if there is a concern that has been stated that somehow MSE was being used to bypass State regulation, and that we have not complied with State regulatory requirements—the point is that at that time the testimony was such, and the load forecasts were such, that AP&L would be purchasing 38 percent of the power from Grand Gulf. So I would say if there was a concern at that time, that AP&L should not be purchasing any power from Grand Guld, that was what was being advised—the State was being advised—that we were going to be purchasing 38 percent of the power from Grand Gulf.

Senator **Bumpers**. We're going to be here at this time tomorrow night, at the rate we're going. These farmers and businessmen have come to testify and I wanted to lay the groundwork for the hearing for you and Dr. Johnson so everybody would know pretty much what we're talking about——

Mr. **Jackson**. Senator, if I could, I do feel as an attorney for one of the parties in the FERC cases, there is a point I believe I must clarify again for the record.

There have been allegations made by the Louisiana parties in support of their position before the FERC that AP&L should be allocated a share of Grand Gulf, that AP&L was not allocated any share of Grand Gulf capacity in the agreements because of political pressure in Arkansas. And I want to state for the record that that is totally not correct, that the agreement between the companies that led to AP&L receiving an allocation of zero share of the power from Grand Gulf was negotiated by the companies in the fall of 1979 as agreed to in January 1980, and then signed officially in the summer of 1980. The meeting between AP&L officials and Governor Clinton occurred in the early summer of 1980, after the agreement had already been reached among the companies that led to the zero allocation of Grand Gulf. And I think I just must make it clear for the record that the zero allocation of Grand Gulf to Arkansas Power & Light Co. was due to negotiations and agreements between the companies based on——

Senator **Bumpers**. Voluntarily entered into, without any coercion from Middle South?

Mr. **Jackson**. Voluntarily entered into, that is correct. And it was not the result of any——

Senator **Bumpers**. Politicians, as you say?

Mr. **Jackson**. That's correct. And I think that's important to make clear for the record.

I also want to say that Arkansas Power & Light Co. and Middle South Utilities have complied with all State and local and Federal statutory and regulatory requirements.

Senator **Bumpers**. Jerry, let me ask you one other question along that line. Was it not correct that the Arkansas Public Service Commission said that they were not going to give a permit to build Independence as long as we were on the hook for any part of Grand Gulf, and that that's the reason that agreement was entered into?

Mr. **Jackson**. Senator, that's really not correct, and——

Senator **Bumpers**. Let's clarify that, because I don't want to misspeak myself and I want a good record here.

Mr. **Jackson**. All right. I'll tell you what I believe leads to that conclusion. I was the attorney for Arkansas Power & Light Co. in that certification process whereby we secured our certificate, so I can state with some familiarity the record in that case.

Arkansas Power & Light Co. did file for a certificate to build Independence and, based on our projections at that time—if we constructed Independence, we would more or less then not be short under the systems agreement; we would have constructed our share of the capacity on the Middle South Utilities System.

A question was raised during the hearings by the Commission at that time, if you did not build Independence then you would be short and you would be getting Grand Gulf power, would you not? Which would have been what would have occurred under the systems agreement at that time. The question was raised, which would be the preferable course to follow? We did provide testimony that compared the economics of Grand Gulf and Independence, and it was our testimony that we would prefer to build Independence rather than be short under the systems agreement. But again, the question was asked from the viewpoint of, let's evaluate your alternatives. There was never any statement that "we will not give you a certificate unless you assure us that you will not receive Grand Gulf power." In fact, if they had not given us the certificate we would have been short, and that would have been the result. So that certainly was not any understanding or any requirement, again, the legal effect of no certificate would have been to assure Grand Gulf capacity.

Senator BUMPERS. Let me ask you, Mike, just a couple very quick questions.

If the settlement offer were to be accepted by FERC—you have a settlement agreement which I have seen here, I mean, I have seen the figures on how it would work. You have your charts up there. Would the FERC accept the settlement offer and also accept those rates, or would that be kicked back to the Arkansas Public Service Commission to approve?

Mr. BEMIS. FERC, as I understand it, would approve an allocation of Grand Gulf. The way that the rates are determined are by the Arkansas Public Service Commission, what we have proposed in this settlement is a phasein based upon the maximum prudent financing capability of Arkansas Power & Light. We are trying to move some of the front-end, high cost to the back, where the cost of Grand Gulf is significantly less. That type of procedure, those types of rates would have to be approved by the Arkansas Public Service Commission, not the FERC.

Senator BUMPERS. Are you prepared to say for the record today that Arkansas Power & Light Co., if that settlement offer were approved, would be willing to lock in these rates right now, with no questions asked and no deviations in the future?

Mr. BEMIS. That question was asked to me by Dr. Johnston in a recent hearing, and my response then was that that would have to go before the Arkansas Power & Light board of directors. That's who would have to approve it. But within a range of——

Senator BUMPERS. Mike, listen, this is really important. You're not telling me now that the Arkansas Power & Light Co. board has not approved this phasein, are you, if the settlement offer is accepted?

Mr. BEMIS. The Arkansas Power & Light board approved the filing of the settlement with Mississippi Power & Light. You're asking me whether Arkansas Power & Light will agree to the establishment of these rates over a 10-year period. First, that would take an agreement with Arkansas Public Service Commission. It would probably—it would have to go before the Arkansas Power & Light board of directors. Speaking for Mike Bemis, senior vice president of Arkansas Power & Light, my recommendation to that board would be yes, within a range—a 2-percent, 3-percent band—on either side of that 7 percent—yes, sir, I would——

Senator BUMPERS. Well, you're certainly making that settlement offer a lot less attractive to me now than you were originally. I thought we were talking about something here that AP&L was offering in concrete for the Public Service Commission and all the rest of us to consider, either being for or against.

Mr. **Bemis**. We have also——

Senator **Bumpers**. You're telling me now that could vary as much as 3 percent?

Mr. **Bemis**. I've shared with you the estimates of what Frost & Co. has calculated a 10-percent change in the revenue requirement of Grand Gulf would be, and on that basis it's less than half of 1 percent. It could vary the other way, Senator. If we were to increase sales during this 10-year period, if we were able—these projections include a 2- to 3-percent growth rate for the State of Arkansas. If we were able to increase industrial and residential sales during this 10-year period, the impact on our customers might be substantially less than this. So——

Senator **Bumpers**. There, again, we get into the inverse thing because if the economy turns downward, rates are going to go up because of the lack of consumption; is that not correct?

Mr. **Bemis**. No, sir, I said increased sales.

Senator **Bumpers**. Well, you sell based on economic activity, don't you? AP&L's sales are directly related to economic activity in the State?

Mr. **Bemis**. Yes, sir.

Senator **Bumpers**. So I'm saying that if economic activity turns downward, rates turn upward.

Mr. **Bemis**. If our growth projections of 2 to 3 percent are overstated, then it is possible that the 7 percent that we calculated this settlement to be might, in fact, become 7½ percent. That's possible.

Senator **Bumpers**. What is AP&L's present excess capacity, Mike?

Mr. **Bemis**. We don't have any excess capacity, Senator.

Senator **Bumpers**. We have none?

Mr. **Bemis**. No, sir. We have a reserve margin now that is in excess of what is an industry norm, of 25 percent. But any excess capacity that we have, and I don't think we have any——

Senator **Bumpers**. But you're not in a position to sell power to anybody else if they wanted it?

Mr. **Bemis**. Yes, sir. And we are—we are selling power; today, we——

Senator **Bumpers**. When I say excess capacity, I'm talking about do you have excess capacity to serve AP&L's customers?

Mr. **Bemis**. How do you define excess capacity? Base load capacity? Oil and gas, or——

Senator **Bumpers**. More than you anticipate the needs from all sources.

Mr. **Bemis**. In my opinion, Senator, we do not have excess capacity, depending on how you define reserves. We probably have a—well, we do have a reserve margin today that is higher than the industry standard, higher than we actually need to serve our customers. As of today we are selling, on a short-term basis, 257 megawatts of coal capacity to MP&L, and 785 megawatts of coal capacity to LP&L and NOPSI; and our customers are getting benefits of those sales.

We are also selling gas capacity, and have several possible sales of additional gas capacity—there's a possibility of several additional sales in the near future. We are trying to do everything that we can do to minimize the cost to our customers. I don't think that we have excess capacity. We have a sufficient baseload capacity to meet our customers' needs into the mid-1990's. Our present projection is that we will need additional capacity by the year 1995; that is presently anticipated to be the Alec Plant, a lignite plant down in Hampton. If we——

Senator **Bumpers**. If you wind up with 36 percent of Grand Gulf, are you still going to need that?

Mr. **Bemis**. No, sir. In all probability the need for that plant will still be there, but it will not be in the 1995 timeframe. It will be something later than that. I would point out, though, that an allocation of Grand Gulf—any allocation of Grand Gulf will be less costly in that timeframe than will Alec.

Senator **Bumpers**. What you're saying is that in that timeframe, then, we'd be better off to take part of Grand Gulf than we would to build that plant?

Mr. **Bemis**. There's not a doubt in my mind that that is true, Senator.

Senator **Bumpers**. That's not going to be welcome news to the folks in south Arkansas.

Mr. **Bemis**. We do not need Grand Gulf today; that is not to say that we will not need it over time. And to say that we are not going to use Grand Gulf is not true. If we are allocated a portion of Grand Gulf, we will in fact use it because electricity is dispatched on the lowest fuel cost available, and Grand Gulf would be the lowest cost generation from the fuel perspective in the system, other than ANO.

Senator **Bumpers**. Just for the record, so that everybody will understand, on page 3 of the schedule of settlement agreement, you show in a column there, "fuel savings." That is the savings that you get by using Grand Gulf as opposed to other generating power, is that not correct?

Mr. **Bemis**. That's correct, sir.

Senator **Bumpers**. One final question, Mike, so that the record will be clear and hopefully everybody who is listening will be clear. When we are talking about these phase-in rates on the settlement proposal, we're talking about rates that are in excess of the amount rates would otherwise go up?

Mr. **Bemis**. That is correct.

Senator **Bumpers**. That's in addition to the 15 percent, for example, that you just asked for?

Mr. **Bemis**. That is a very good point; yes, Senator. We are talking about solely the impact of an allocation from Grand Gulf.

Senator **Bumpers**. Mike, thank you and Jerry both for being with us. Mike and Jerry, I may submit some additional questions to you for the record.

Mr. **Bemis**. We'd be happy to answer them.

[The prepared statement and supplemental information of Mr. Bemis follow:]

COMMENTS OF

MICHAEL BEMIS
SENIOR VICE PRESIDENT
FINANCE, REGULATION & LEGAL SERVICES
ARKANSAS POWER & LIGHT COMPANY

DECEMBER 7, 1985

12/07/84

COMMENTS OF MICHAEL BEMIS

First, I would like to express my appreciation to Senator Dale Bumpers and his staff for this opportunity to speak on behalf of AP&L. It is our understanding that these hearings are directed at assessing the impact on present and future ecnomic development by any adverse decision by the Federal Energy Regulatory Commission in the Grand Gulf proceedings.

I say, without fear of contradiction, that no Company in Arkansas can match our efforts in the field of economic development. Much of this state's efforts to attract industry and jobs to Arkansas can trace its beginning to the early work of Arkansas Power & Light Company. I make this point only to underscore how seriously we take our role as a leader in economic development. We are ever mindful of the price of our product and the possible impact that price might have on new and expanding industries in our service area.

In order to evaluate the impact of any price increase, you have to look at where you are at present. Lost in much of the present rhetoric is the fact that Arkansas' industrial rates are among the very lowest in the nation. A recent survey of 113 companies across the country showed that AP&L industrial rates were lower than 103 of the 113 companies surveyed, or tenth from the lowest. Our overall rates, including all classes of customers, compare very favorably with the rest of the nation.

The impact of an unfavorable decision by the FERC in the Grand Gulf case has been greatly overstated. In fact, I suspect that when we look back on this issue, we'll find that those overstated predictions did more harm to economic development than any allocation itself.

Let's look at the facts. Even a 36% allocation of Grand Gulf would not put Arkansas' electric rates out of line with the rest of the nation. In fact, we would still have some of the lowest rates in the nation to attract industry. If our "settlement proposal" were accepted by the FERC, the impact would be even less--increasing rates about 7 percent by 1994. An increase of this proportion would have very little impact on our present ranking vis-a-vis other states. It is also worth noting that at our present growth of about two or three percent, we will, by the mid-90's, need additional sources of electricity to meet the needs of this state. At that point, Grand Gulf becomes a "cost saver"...an asset that will benefit the state for the next 25-30 years.

Let me be perfectly clear, we have strongly opposed any forced allocation of Grand Gulf power upon AP&L in our case before the FERC, and we will continue to oppose the administrative law judge's ruling allocating 36% of Grand Gulf power to AP&L. I would also point out that no one--including the PSC, the Attorney General or the Governor--has ever said AP&L did not put forth as strong a case before the FERC as was humanly possible to defend its position. We still believe we should receive a zero allocation of Grand Gulf. We believe the record fully supports that position.

Unfortunately, the term Grand Gulf has been used as a kind of "verbal shorthand" to refer to not only the Grand Gulf case, but also the other proceeding currently pending before the FERC--the System agreement case. In that proceeding, we could be forced to share the benefits of our low-cost nuclear and coal generation with customers in Mississippi and Louisiana through the adoption of the concept of System average costing as has been proposed by the Louisiana Public Service Commission and the FERC staff.

We have devoted our efforts to achieving a rational solution to both issues ON THE FEDERAL LEVEL. We have said from the beginning that the battle will be won or lost in Washington. Previous rulings and even a recent Federal Court decision in Arkansas should make it abundantly clear that whether we like it or not, the FERC has jurisdiction of these issues. It is folly to ignore the decision of the administrative law judge who heard testimony in the Grand

Gulf case and then ruled against us. And it is a terrible hoax to take a position that Arkansas can somehow reverse any decision made in Washington. For that reason, we have sought a unified Arkansas position.

It was a search for a rational solution that led us to propose what we felt was a settlement offer that protected the best interest of our customers. The alternative was to gamble on winning and running the risk of a much greater allocation of Grand Gulf--or even worse, the adoption of System average costing. To date, we have been unable to gain support for the settlement proposal from other Arkansas intervenors. Therefore, we are not very optimistic about its chances of being accepted. We have repeatedly said that if others feel they have a better alternative, we are open to discuss it. So far, no other alternative has been forthcoming.

At this point, I would like to take a few moments and provide a brief history of AP&L's position in regards to Grand Gulf.

When Grand Gulf was conceived in the early 1970's, no one could have foreseen how the energy picture in this country would change in the years ahead. Certainly, no one was predicting Arab Oil Embargos, double-digit inflation, Three Mile Island, and other events that have impacted power plant construction and electricity usage across the country.

The decision to build Grand Gulf was a prudent one when it was made, and, over the life of the plant, it will be a good investment. In fact, much of the criticism being heard now about Grand Gulf is similar to that we heard about our own construction program. A program that is now recognized by even its initial critics as a benefit to the state.

The impact on growth patterns by the events mentioned above resulted in our reassessment of our participation in Grand Gulf. We were nearing completion of our own fuel diversification program, and the other companies needed the energy from Grand Gulf more quickly than we did. So in 1979 and 1980, we negotiated an agreement with the other operating companies in the Middle South System whereby AP&L would not purchase any of the power available from Grand Gulf. Instead, all of the power from the unit would be purchased by Louisiana Power & Light Company, Mississippi Power & Light Company and New Orleans Public Service, which were at the time totally dependent on oil and natural gas, whereas we had shifted primarily to coal and nuclear energy.

That agreement held until last February when an administrative law judge for the Federal Energy Regulatory Commission in essence embraced a position proposed by the Louisiana Public Service Commission--allocating 36 percent of Grand Gulf to Arkansas. His position was that by doing this, he was in effect averaging the cost of constructing nuclear power plants among all the operating companies of Middle South. It is worth noting that until this decision, the other Middle South companies and even the FERC staff supported a zero allocation of Grand Gulf to Arkansas. However, once the administrative law judge ruled, LP&L and NOPSI generally fell in line to positions taken by the Louisiana Commission. Also, at about this time, all of the other operating companies decided to support the adoption of System average costing.

As we began to assess our position in the months following the administrative law judge's decision, we began to fully comprehend the tremendous risk we were taking by gambling on an all-or-nothing outcome in the two FERC proceedings. Remember, a compromise is possible only if we act before the FERC rules in these cases. Although we believe that our arguments and the arguments that have been advanced by the other Arkansas parties are sound and equitable, we do face an uphill battle in our effort to overturn the administrative law judge's decision.

It was against this backdrop a 36% allocation of Grand Gulf and the possibility that the administrative law judge's decision might be affirmed, together with the risk of an adverse decision in the System agreement case, that we began a review and reassessment that looked at any and every alternative we could think of to protect our customers. Out of this review came our settlement proposal to take not 36% of Grand Gulf, but 17%. FURTHER, SYSTEM AVERAGE COSTING WOULD BE REJECTED. We felt this settlement proposal offered the best alternative available. It was one that:

1. Minimized the cost exposure facing our customers.

2. Removed the cloud of uncertainty that hangs over the state and its ability to recruit new industry.

3. And demonstrated once and for all that the operating companies of the Middle South System do make independent decisions which benefit the customers of their individual service territories.

Let's just for a moment look at the financial impact the settlement would have on our customers. The attachments to my statement demonstrate graphically the impact of the settlement and further serve to show that the perceived impact of an allocation of Grand Gulf power has been terribly distorted. We have proposed a phase-in over a ten-year period (see attachments). The first year, the settlement would actually decrease existing rates, albeit slightly. The second year rates would increase three percent, the next year another one percent and so forth until after six years our rates would have increased about 11%. But then the revenue requirements for the unit would begin declining so that at the end of ten years, the net impact of the settlement would be about 7%. After that, Grand Gulf actually starts to save money for our customers.

If the PSC should reject the phase-in approach and order the full increase for a 17% allocation of Grand Gulf the first year, rates would increase about 8.6% the first year, increase another one percent the second year and then start declining so that at the end of ten years the net effect is a 3.5% increase.

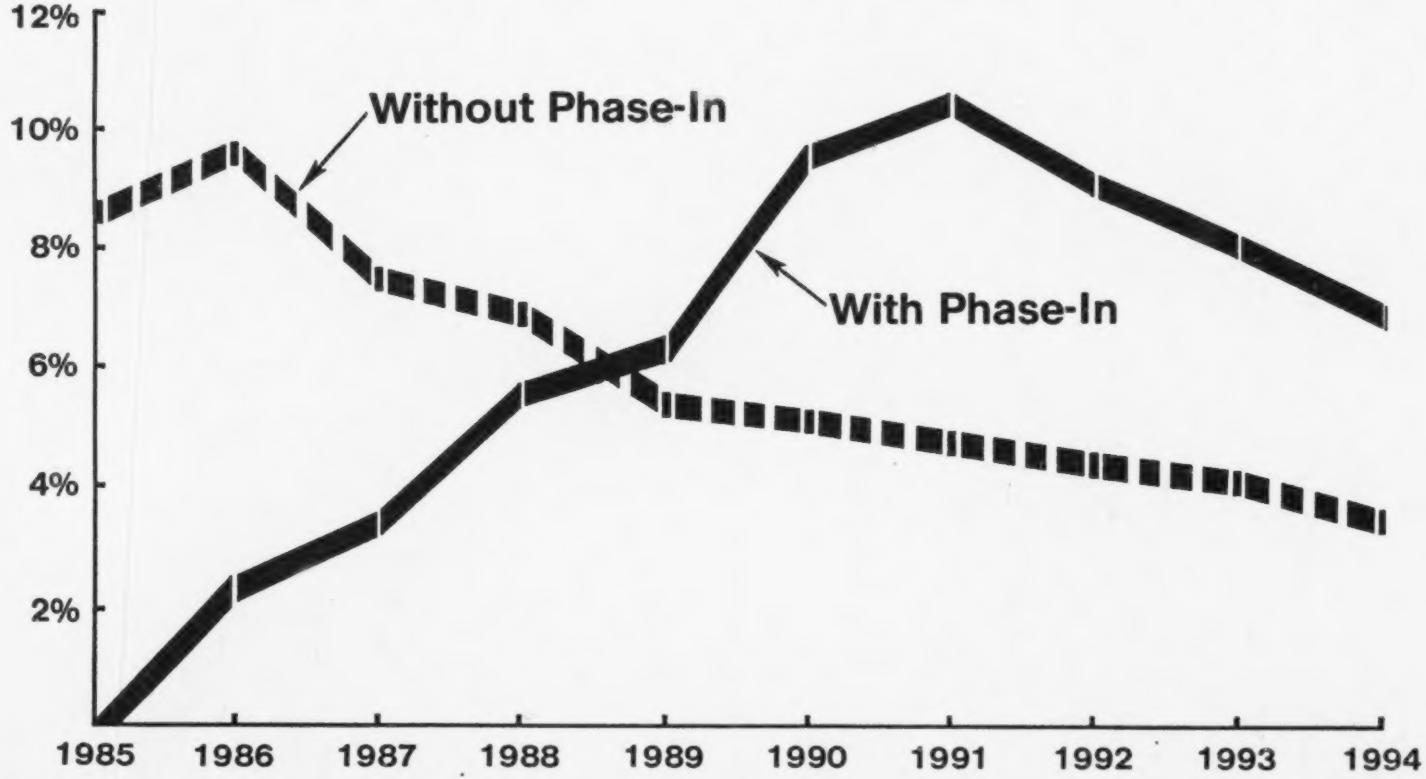
If, on the other hand, the FERC affirms the administrative law judge's 36% allocation as many seem to think it will, the impact, again without a phase-in, would be an increase of about 27% the first year with a gradual decrease in the impact in succeeding years. By about 1994, the savings from Grand Gulf offset the annual cost.

If we were to phase in the 36% allocation, the first year's impact is an increase of 5%, followed by an additional 6% the second year, 4% the third and 3% the fourth. After four years, the revenue requirement starts to come down so that in about ten years, the unit begins to save our customers money.

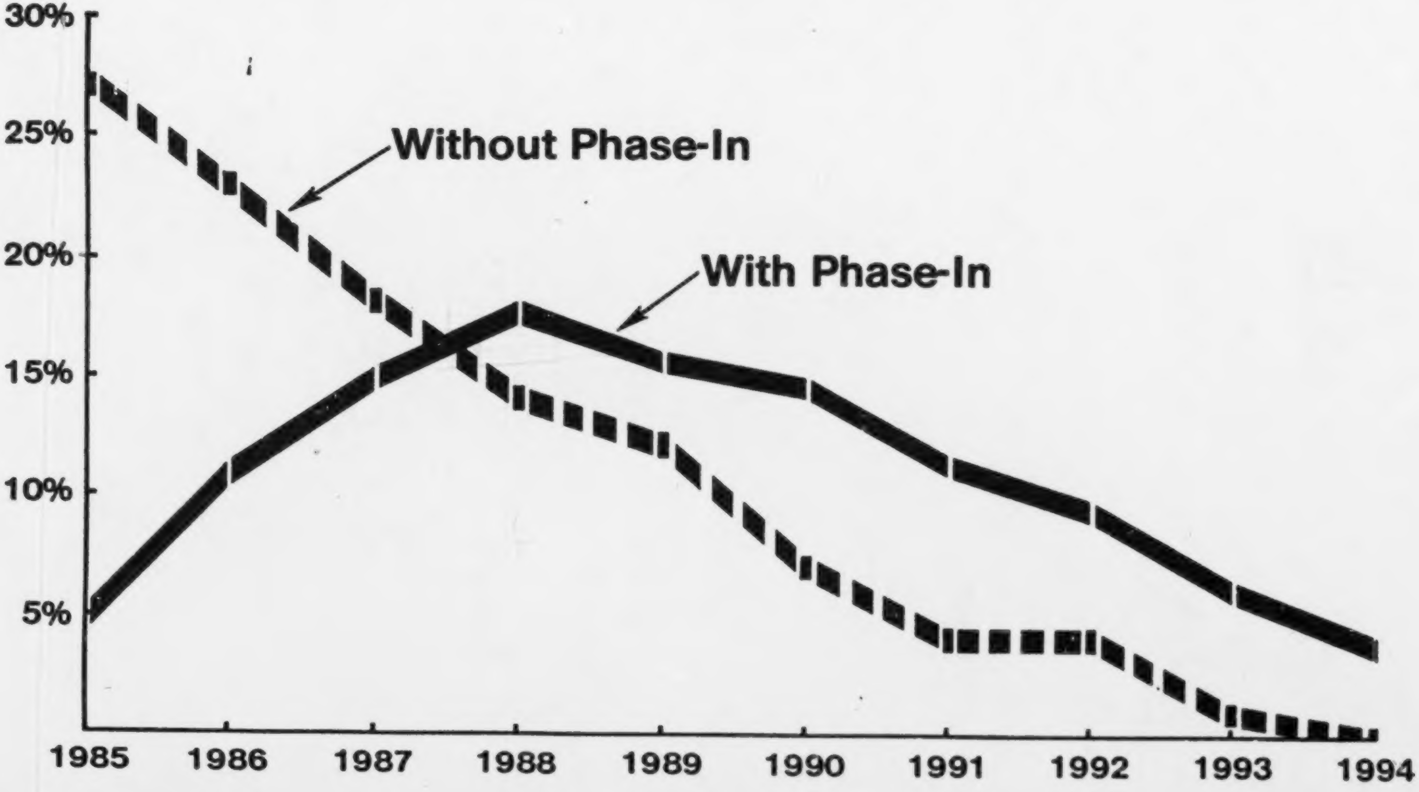
I think these numbers confirm that an allocation of Grand Gulf power would not have the devastating impact that some have alleged. Instead, if allowed to phase in the cost of any Grand Gulf allocation, we can avoid the kind of rate shock that would substantially effect economic development in Arkansas. Again, I would reiterate, I think some of the exaggerated statements about the impact of Grand Gulf may very well be causing a "mind-set" that does more damage to our economy and its future than any potential allocation of Grand Gulf.

This issue is vitally important to our state and deserves full and careful review. We thank the Senator and his staff for this opportunity and hope today's hearing will go a long way toward putting this issue in its proper perspective. Thank you.

SETTLEMENT PROPOSAL



36% OF GRAND GULF



ARKANSAS POWER & LIGHT COMPANY
FIRST NATIONAL BUILDING/P.O. BOX 551/LITTLE ROCK, ARKANSAS 72203/(501) 371-4274

MICHAEL B. BEMIS
Senior Vice President
Finance, Regulation & Legal Services

January 2, 1985

FEDERAL EXPRESS

The Honorable Dale Bumpers
United States Senator
Room 3229
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Senate Small Business Committee Hearings
On the Grand Gulf Case

Dear Senator Bumpers:

We appreciate the opportunity extended to us to testify before the Senate Small Business Committee hearing in Little Rock on December 7 concerning the Grand Gulf proceeding.

In accordance with your invitation to submit additional comments for the record, we would like to supplement the points previously made in our testimony during the hearing as follows:

1. Governor Clinton testified that he had met and talked with representatives of International Paper Company several times over the last few months in an effort to help open their Camden plant. He quoted the representatives of International Paper as having said that:

> the union has done everything it can do; the State has done everything it can do, and is doing everything it can do; but our electric bills are already higher in this State than any other state in which we operate, and if we have to sustain another major rate increase, I don't know how we can continue to keep that plant in operation. (Tr. 10)

The record should reflect that the electric rates for the International Paper Company plant at Camden, Arkansas are lower than most of the other areas of the United States where International Paper Company plants are located. We have attached a copy of an analysis recently completed which compares the electric rates for International Paper's Camden location with the eleven other pulp and paper mills operated by International Paper in the United States. The results of this comparison are reflected on Attachment "A". As reflected on Attachment A, AP&L's rates for International Paper's Camden plant are third from the lowest of their twelve locations in the United States when state taxes are omitted. With state taxes included, AP&L's rates are fourth from the lowest.

2. Dr. Johnston referred to a study of industrial attractiveness by Alexander Grant & Company, Certified Public Accountants. He states that the Alexander Grant study found Louisiana to be the most attractive state in the United States for manufacturers with respect to energy costs and that Arkansas is fourth out of four states (Texas, Arkansas, Oklahoma and Louisiana) in the South Central region.

We believe that the record in these proceedings should clearly reflect that the Alexander Grant studies did not consider electric rates alone. Instead, the relative rankings in the Alexander Grant study cited by Dr. Johnston referred to fuel and electric energy costs per million BTUs. Thus, the rankings looked at total energy costs per billion BTUs which would include natural gas, fuel oil, propane and electricity. It is not surprising that total energy costs, including natural gas, propane and fuel oil, for manufacturers in Arkansas would be higher when compared to the gas and oil producing states of Oklahoma, Texas and Louisiana.

Thus, the Alexander Grant study is not in conflict with the studies which demonstrate that AP&L's electric rates compare very favorably with other states. As I stated during my testimony, our studies reflect that, based upon 1983 electric rates, AP&L's overall rates were 18th lowest among 113 electric utilities in the United States. AP&L's industrial rates are even more favorable when compared to the rest of the country -- ranking 10th from the lowest of the 113 companies surveyed. Although this was a study performed by AP&L, the results were confirmed by an independent study by the University of Arkansas in March 1984. The results of the studies by AP&L and the University of Arkansas were further confirmed by a recent analysis published in the *Arkansas Democrat* on December 9, 1984 (Attachment "B"). The *Arkansas Democrat* survey found that AP&L's

rates were eighth lowest overall of the 27 utilities surveyed and third lowest for industrial customers.

The fact that AP&L's rates are very competitive was further confirmed by the testimony of Mr. Richard Bell, President and Chief Executive Officer of Riceland Foods, Inc., and other witnesses who testified that their electric rates in Arkansas compared favorably with other states. Mr. Bell testified

> "We do feel at the present time, compared to other states which we do consider ourselves to be competitive with, that our electric costs are in line." (Tr. 114)

3. Although AP&L's rates would increase as a result of an unfavorable decision by the FERC in the Grand Gulf case, AP&L's rates would still compare very favorably with other utilities in the United States.

As we stated in our written statement, even a 36 percent allocation of Grand Gulf would not cause our electric rates to become non-competitive with the rest of the nation and our electric rates would still rank among the lowest in the nation. Furthermore, if the settlement of the FERC cases proposed by AP&L and Mississippi Power & Light Company were adopted by the FERC, AP&L's rates would only increase by approximately 7 percent over the next 10 years and, after 10 years, Grand Gulf would actually start to save money for our customers.

Dr. Johnston and Mr. Larry Jegley, an attorney for the Arkansas Public Service Commission, raised questions with respect to the accuracy of our projections of the impact of the proposed settlement with MP&L. Dr. Johnston alleges that the cost of Grand Gulf could be understated and that the projections do not consider the effects of price elasticity, i.e. reduced consumption in response to price increases. Mr. Jegley stated that the Commission Staff was reluctant to accept the Company's projections because they had not reviewed our workpapers.

First, AP&L met with the Commission and the Commission Staff on a number of occasions for the purpose of discussing the MP&L settlement and addressing any questions raised by the Commission or its Staff. Not only has the Company been willing to provide any workpapers desired by the Staff, we offered the opportunity to the Commission or the Staff to have our calculations reviewed by an independent accounting firm to verify their accuracy.

Subsequently, as I stated during the hearings on December 7, AP&L retained the firm of Frost & Company, Certified Public Accountants, to review the forecasted impact of the settlement proposal by AP&L and Mississippi Power & Light Company in the FERC cases (Attachment "C"). As reflected in their report, Frost & Co. concluded that AP&L's calculations and assumptions are accurate and reasonable and that 6.8 percent is a reasonable forecast of the impact of the settlement at the end of 10 years under our phase-in plan.

In response to Dr. Johnston's assertions that our projections did not include the effects of price elasticity, it should be noted that the Frost & Co. report did adjust the 6.8 percent forecast to reflect the effects of reduced consumption in response to an increase in price. Frost & Co. concluded that if the 6.8 percent increase which would result from the proposed settlement were adjusted to reflect the effects of price elasticity, the increase would be 8.01 percent rather than 6.8 percent. To further demonstrate that projected percentage increases are relatively insensitive to changes in assumptions, it should be also noted that Frost & Co. determined that a 10 percent increase in the revenue requirement for Grand Gulf -- which would be comparable to a one-year delay in the completion of the unit -- would only increase the impact of the settlement from 6.82 percent to 7.27 percent. This demonstrates the point I made during my oral presentation -- the forecasted percentage increase resulting from such a settlement simply cannot be moved that much by changes to the underlying assumptions.

We believe the Frost & Co. study confirms the point that we have attempted to emphasize in our written statement submitted in this proceeding -- the effects of an allocation of Grand Gulf have been seriously overstated. Furthermore, I would like to reiterate our sincere belief that such overstatements of the impact of Grand Gulf as a "crisis" which will have a "devastating impact" on the economy of Arkansas have done, and are doing, more harm to the ability of our state to attract and retain industry than the results of an allocation of Grand Gulf.

I have attached a copy of a 73-page study entitled "Analysis of the Significance of Electric Energy Costs to Industrial Establishments" prepared by the Bureau of Business and Economic Research of the College of Business Administration at the University of Arkansas at Fayetteville (Attachment "D"). This study concluded that electric energy costs for manufacturing establishments served by AP&L are at or below the national average and that uncertainty over the FERC cases is more of a concern than the actual level of rates.

4. A statement was made by Governor Bill Clinton that "permission to build the Grand Gulf power plant was never sought from nor given by the Arkansas Public Service Commission (APSC), which is statutorily authorized with the responsibility to make such determinations." Contrary to Governor Clinton's statements, there is no statutory provision which would require MSE (or AP&L) to secure approval from the Arkansas Commission to build the Grand Gulf facility. The Utility Facility Environmental and Economic Protection Act of 1973, which Governor Clinton cited, requires an environmental impact statement and APSC approval only when a power plant is constructed in the State of Arkansas and does not apply to a generating unit constructed outside the state.

As we stated during the hearings, MSE and AP&L have complied with all statutory and regulatory requirements with respect to the Grand Gulf facility.

5. It was also stated during the hearing that "MSE was created to evade state regulation." These allegations are totally untrue. Middle South Energy, Inc. was created in February 1974 to finance, construct and operate new base load generating facilities to provide electric power and energy to the operating subsidiaries of Middle South Utilities in Arkansas, Louisiana, Mississippi and Missouri. The first such project was the Grand Gulf Project.

Historically, each of the operating companies of the Middle South System has been responsible for constructing the generating facilities necessary to serve the requirements of their customers. Furthermore, each company has been responsible for financing the construction of its facilities, primarily through the sale of their first mortgage bonds and preferred stock to the public. Middle South has provided the common equity portion of the permanent capital needs of the System operating companies through the purchase of common stock of these companies.

At the time of the decision to construct the Grand Gulf Nuclear Station, system load forecasts indicated the need for significant amounts of generating capacity by each of the operating companies in addition to those facilities already under construction. Further, engineering and economic studies indicated that the construction of a two-unit nuclear generating plant at the Grand Gulf site was the most economic alternative available.

Although it was initially planned for MP&L to construct Grand Gulf, it became quickly apparent that MP&L alone could not finance a project of that size since the cost would far exceed the total capitalization of the company. In fact, at that point in time, no single system operating company had the financing capability to undertake a project of this magnitude.

Accordingly, the Middle South system undertook various financial studies with respect to alternative methods to finance this project.

After extensive studies, we concluded that the most desirable alternative for our customers was for the project to be owned and financed by a new subsidiary of MSU. Accordingly, MSE was incorporated in 1974 and after receipt of appropriate approvals of the Securities and Exchange Commission and the Atomic Energy Commission, MSE undertook responsibility for the financing, construction and operation of the Grand Gulf project.

It should be recognized that separate generating companies had been created and were in use by many other utility systems long before MSE was created. Accordingly, it was not unusual to utilize a separate generating company to finance and construct a new power plant such as Grand Gulf. There was never any intent to avoid regulation through the creation of MSE. Furthermore, the creation of MSE has not, and could not, result in an avoidance of regulation.

All financial transactions involving MSE have required SEC approval pursuant to the Public Utility Holding Company Act of 1935. In addition, the FERC has jurisdiction over the rates to be charged for the power and energy produced by Grand Gulf. In fact, in our deliberations on this subject, we viewed the prospects of rate regulation by the FERC as less favorable to the stockholders of MSU than rate regulation by the states and, accordingly, consideration of this factor was a negative and not a positive consideration from the stockholders' viewpoint.

In fact, if one were to go back to the time that MSE was created and compare the rate decisions that were being issued by the FERC at that time with those made by state regulators, from the viewpoint of both the adequacy and timeliness of rate increases allowed, it would be apparent that utility companies could expect more responsive rate relief from state regulators than from the FERC. As a result, there was simply no incentive to subsitute FERC regulation for regulation by the state commissions. Accordingly, the decision to create MSE was not based upon regulatory considerations, but was motivated by the prospects of achieving significant savings in the cost to finance the facilities through the use of the generating subsidiary approach.

It should be noted during the discovery phase of the two FERC proceedings that thousands of pages of studies, memoranda and other documents have been produced by MSE and the MSU companies, many of which related to the creation and history of MSE. These documents demonstrate that MSE was created for the reasons I have discussed above, and I believe it is significant that no party to either of the proceedings has contended, or even intimated, otherwise.

6. During the hearing, certain witnesses contended that AP&L has excess capacity. In fact, Mr. Larry Jegley, an attorney for the Arkansas Public Service Commission, contended that AP&L has enough capacity to "make it into the year 2000." (Tr. 99)

It is true that AP&L currently has more capacity than necessary to satisfy the 25 percent minimum reserve margin criteria which has been adopted by the Middle South Utilities System for planning purposes. It should be noted, however, that AP&L is selling, on a temporary basis, 1042 MW of coal capacity to other operating companies, and our customers are receiving the benefits of these sales.

Further, in response to Mr. Jegley's statements, we project that without the installation of additional capacity or an allocation of Grand Gulf, we will be short of the minimum 25 percent reserve margin by the year 1989. This projection is based upon a very conservative forecast of load growth of only 2 to 3 percent per year.

Accordingly, we do not now have, or are we forecasted to have, excess generating capacity on the AP&L system.

In conclusion, I would like to express again our appreciation for the opportunity to submit testimony to the Senate Small Business Committee with respect to this very important issue. If we can provide you or the committee with any additional information, please don't hesitate to call upon me.

Very truly yours,

Michael B. Bemis

MBB:nc
Attachments

ATTACHMENT "A"

RATE COMPARISON

INTERNATIONAL PAPER COMPANY

PULP AND PAPER MILLS*

(Domestic Locations Only)

Current Rate For Load Comparable To Camden, Arkansas Mill

Power Company	¢ PER KWH Before State Tax	¢ PER KWH After State Tax	State Tax
Central Lincoln Peoples Utility District (Gardiner, Oregon) Bonneville Hydro	2.44	2.44	Tax Exempt
South Carolina Public Service Authority	3.62	3.62	Tax Exempt
Arkansas Power & Light Company	**3.96	***4.12	4% State Tax
Mississippi Power & Light Company	3.98	4.02	1% State Tax
Alabama Power & Light Company	4.10	4.27	Stepped Tax
Southwestern Electric Power Company (Texas)	4.14	4.14	Tax Exempt
Mississippi Power Company	4.60	4.65	1% State Tax
Louisiana Power & Light Company	4.65	4.65	Tax Exempt
Central Maine Power Company	4.90	4.90	Tax Exempt
Niagara Mohawk Power Company	5.40	5.40	Tax Exempt
Central Louisiana Electric Company	5.54	5.54	Tax Exempt
Yazoo Valley Electric Power Association	(no comparable rate)		

Camden, Arkansas Plant Is Exempt From Franchise Tax

*As listed in IP's 1983 annual report (pg. 19, second column)
**Third Lowest
***Fourth Lowest

Attachment B

Arkansas Democrat
114TH YEAR—No. 69 LITTLE ROCK, DECEMBER 9, 1984

Company	Overall Rank	Overall Average cost/ kwh	Residential Rank	Residential Average cost/kwh	Industrial Rank	Industrial Average cost/kwh
Gulf States Utilities (1)	1	4.23	18	6.96	2	3.75
Union Electric (2)	2	4.53	5	5.78	1	3.67
OKLAHOMA GAS & ELECTRIC (3)	3	4.63	3	5.66	7	3.95
SOUTHWESTERN ELECTRIC POWER (4)	4	4.67	8	6.04	9	4.14
Kingsport Power	5	4.75	1	5.01	8	4.12
Public Service Co. of Oklahoma	6	4.80	10	6.21	10	4.18
EMPIRE DISTRICT ELECTRIC (5)	7	4.82	2	5.43	5	3.84
ARKANSAS POWER & LIGHT (6)	8*	4.84	17	6.85	3	3.77
Missouri Utilities (7)	8*	4.84	6	5.95	4	3.79
Missouri Edison (7)	10	5.09	13	6.46	6	3.93
Louisiana Power & Light	11	5.15	4	5.72	12*	4.61
Mississippi Power	12	5.29	11	6.24	16	4.88
Texas Utilities Electric (8)	13	5.55	14	6.48	11	4.32
Southwestern Public Service (9)	14	5.59	23	7.67	17	4.92
Missouri Power & Light (7)	15	5.76	9	6.20	15	4.85
New Orleans Public Service	16	5.82	7	5.96	18	5.00
Mississippi Power & Light	17	5.91	12	6.33	21*	5.30
Southwestern Electric Service	18	5.93	15	6.53	26	5.93
West Texas Utilities	19	6.00	19	7.27	23	5.64
St. Joseph Light & Power	20	6.20	16	6.62	19	5.06
Kansas City Power & Light (10)	21	6.33	20	7.34	12*	4.61
Houston Power & Light	22	6.38	26	8.25	20	5.22
Texas-New Mexico Power (11)	23	6.47	25	8.08	21*	5.30
Missouri Public Service	24	6.50	24	7.98	14	4.80
Central Power & Light	25	6.67	22	7.47	25	5.76
Central Louisiana Electric	26	6.77	21	7.41	24	5.66
El Paso Electric (12)	27	8.00	27	9.70	27	6.40

Arkansas Democrat/J. Michael Storey

BELOW AVERAGE — A survey of regional electric rates in 1983 indicates AP&L compared favorably with 26 other investor-owned utilities. Those serving Arkansas are capitalized. Numbers in parentheses denote: 1. Serving Louisiana and Texas; 2. 1983 boundaries; 3. Serving Arkansas and Oklahoma; 4. Serving Arkansas, Louisiana, Texas; 5. Serving Arkansas, Kansas, Missouri, Oklahoma; 6. Serving Arkansas, Missouri; 7. Now part of Union Electric; 8. Includes Dallas Power & Light, Texas Electric Service, Texas Power & Light; 9. Serving Kansas, New Mexico, Oklahoma, Texas. Figures for this company include taxes, which average about 3%; 10. Serving Kansas, Missouri; 11. Serving New Mexico, Texas; 12. Industrial rates include large commercial customers. Figures followed by an asterisk denote ties.

Survey shows AP&L's rates among region's lowest in '83

BY STEPHEN BUEL
Democrat Staff Writer

Arkansas Power & Light Co. generated some of the least expensive power sold by investor-owned utilities in the region last year, an *Arkansas Democrat* survey of electric rates in Arkansas and surrounding states indicates.

AP&L's rates were eighth lowest of the 27 utilities surveyed, with a system average cost per kilowatt-hour of 4.84 cents. Its average industrial rate was third lowest at 3.77 cents per kwh, while its residential rates were slightly more expensive than average at 6.85 cents per kwh, which ranked it 17th.

The survey indicates AP&L's rates would remain regionally and nationally competitive if state regulators grant the utility's request for a 15 percent rate increase and a phased-in recovery of costs of the Grand Gulf nuclear plant. However, the utility's rates would climb to among the highest in the region if the full effect of a Grand Gulf allocation were to be put into its rates at one time.

In a Feb. 3 ruling that has since become notorious to many Arkansans, a federal administrative law judge ruled that AP&L, because of its historic involvement in the reactor's construction, should help pay for 32 percent of the $3.4 billion Mississippi nuclear plant.

The decision has been ap-

See RATES, Page 14A

Rates

• Continued from Page One

pealed, but AP&L says it has been forced to seek recovery of its share of the plant's costs. The utility has proposed to phase in those costs over 10 years.

Previous rate surveys using the same methods have indicated that AP&L's electric rates compare favorably with those of other investor-owned electric utilities across the country.

A 1984 survey by two economics professors at the University of Arkansas at Little Rock ranked AP&L's 1982 rates as 20th lowest of 100 utilities surveyed. An AP&L update of that study for 1983 placed it 18th out of 113 utilities.

AP&L officials cite these surveys as evidence that they charted a wise course with their massive plant construction program of the last 16 years.

Just this week, AP&L fired up Unit 2 of its Independence Steam Electric Station near Newark, the final step in its quest to reduce its dependence upon costly oil and natural gas and generate a greater share of its load with relatively low-cost coal and nuclear fuel.

But the fury surrounding the Grand Gulf cases has tended to obscure AP&L's successful completion of this ambitious fuel diversification program.

For officials at AP&L this has been a discomforting situation. Anxious again to don the white hats they wore in the 1960s, AP&L executives have instead seen their achievements dwarfed in the shadow of the twin Grand Gulf cooling towers.

As Arkansas awaits imminent decisions in the two nuclear plant cases, officials have again turned to rate studies for clues about where AP&L's rates would be in the event of an unfavorable ruling in either of the cases. Several recent studies were discussed Friday during a special hearing of the Senate Committee on Small Business convened by Sen. Dale Bumpers, D-Ark.

The *Democrat* survey was based upon 1983 generating costs for investor-owned utilities in Arkansas and the six neighboring states. Most of these rates have increased slightly in the intervening months. And like AP&L, several of the utilities have since requested large rate increases — as much as 65 percent in the case of Oklahoma Gas & Electric Co.

For the year 1983, AP&L was the highest-priced of the four investor-owned utilities serving Arkansas. OG&E, Southwestern Electric Power Co. and the Empire District Electric Co. placed third, fourth and seventh in the survey, respectively. AP&L serves the majority of Arkansas residents.

The approximately 25 municipally owned electric companies and rural electric cooperatives in Arkansas were not included in the survey because they receive some government funds and thus are not comparable to investor-owned utilities, which are funded exclusively by customers and investors.

Of the 27 utilities surveyed, costs per kwh of electricity in 1983 varied from a low of 4.23 cents to a high of 8 cents. AP&L's average power cost was 4.84 cents per kwh, less than the median price of 5.59 cents.

AP&L excelled in industrial rates, where its 3.77 cent per kwh cost ranked it third, well below the 4.8 cent median price. The lowest cost was 3.67 cents; the highest was 6.4 cents.

In the residential column, AP&L's rates were slightly higher than the median rate of 6.48 cents per kwh. AP&L was 17th with an average residential cost of 6.85 cents. The low was 5.01 cents; the high was 9.7 cents.

The *Democrat* also surveyed commercial rates, where AP&L was ranked ninth cheapest of the 27 utilities. AP&L's average commercial cost of 5.79 cents per kwh was a good bit cheaper than the 6.5 cent median cost.

Statistical electric rate comparisons, such as the *Democrat's* may seem to offer an objective means of comparing the service of disparate utilities, but such studies are actually a poor basis for making far-reaching conclusions about utility performance.

"Really, all that such a survey can tell you is what a particular company was charging its customers for electricity," Michael Bemis, a senior AP&L vice president, said Thursday.

Bemis and others note that such comparisons cannot begin to describe the numerous service costs that vary from utility to utility or the varying rate-making formulas employed by utilities and their regulators across the 50 states.

The costs of supplying electricity to rural areas, such as much of that served by AP&L, are significantly higher than the costs of supplying dense urban areas, such as Houston.

A simple comparison of electric rates in two such areas will thus point out which utility has less expensive power, but it will not indicate which utility has done a better job of holding rates down, given the economics of its service area.

The economics of electric generation also vary significantly in different regions of the country. Electric rates are generally highest in the Northeast, lowest in the Northwest and slightly below the national average in Arkansas and the six surrounding states. Even an extraordinarily well-managed Northeastern utility is thus bound to look bad if its rates are compared to an Arkansas firm. For this reason, regional rate comparisons may offer a better picture of an electric utility's performance.

Walter Davidson, a Little Rock lawyer who has participated in many utility cases before the Arkansas Public Service Commission, said such electric rate comparisons tell too little about a utility's rate structure to serve any useful function as a means of comparing utilities.

AP&L's relatively costly residential rates seem to indicate, for instance, that other utilities subsidize their residential customers to a greater extent than AP&L. Many utilities subsidize their residential customers at the expense of their commercial and industrial consumers. However, Davidson observed that AP&L's different ranking in each of the three customer classifications could just as easily stem from other factors, such as rate structure or geography.

Rate surveys can show how AP&L's rates after a forced Grand Gulf rate increase would compare with the rates of other utilities. But such surveys cannot indicate the impact that such an increase would have upon the utility's customers.

Some 39 of the 40 witnesses who testified Friday during Bumpers' Senate hearing in Little Rock on the effects of a Grand Gulf rate increase predicted dire consequences for Arkansas if AP&L's rates should increase by 25 to 50 percent.

"We can realistically expect to see many industries drop off our present electrical system," Gov. Bill Clinton testified. "Other plants will shut down and unemployment will rise. Obviously, we would be unable to attract new industry to take the place of those lost."

Of the witnesses, only AP&L's Bemis was optimistic.

"I think the impact on AP&L of Grand Gulf has been greatly overstated," Bemis said. "I think that overstatement and the rhetoric that has accompanied that overstatement has hurt economic development in the state more than an allocation of Grand Gulf itself."

Bemis made the argument, born out by the *Democrat* survey, that even with a full 32 percent allocation of Grand Gulf, AP&L would have some of the country's lowest industrial rates.

One detail that has been lost in the reaction to the Grand Gulf ruling is, in fact, the very situation that gave rise to the court struggle over who should pay for the plant.

AP&L's rates in 1983 were the lowest of the four utility subsidiaries of Middle South Utilities Inc., the *Democrat* survey showed. Louisiana Power & Light Co. was ranked 11th at 5.15 cents per kwh, New Orleans Public Service Inc. was ranked 16th at 5.82 cents per kwh and Mississippi Power & Light Co. was ranked 17th at 5.91 cents per kwh.

AP&L and those three utilities are the main participants in the battle over Grand Gulf. Regulators in Louisiana initiated the skirmish when they observed that a large allocation of Grand Gulf power would drive their rates even higher in relation to those charged by AP&L.

Louisiana regulators have proposed that rates throughout the Middle South system be equalized. So, even though a loss in both cases might have disastrous effects upon some segments of the Arkansas economy, AP&L's rates would be no higher than those of its three sister companies in Mississippi and Louisiana.

Different types of rate comparison will provide different results. The *Democrat* survey employed the same methodology as that used by Stanley E. Boyle and Ralph B. Shull, two UALR economics professors who have performed national electric rate comparisons, including some but not all of the companies surveyed by the *Democrat*.

Those studies were based upon a comparison of each utility's revenue per kwh for the system as a whole and for each of the three chief customer classifications – residential, commercial and industrial. Each customer class pays a different average electric rate.

Boyle and Shull prefer this method of comparison because they argue that other techniques, such as comparing average residential bills, are not indicative of a company's overall rates and do not reflect the different rate-setting formulas used by utility regulators.

One study that has made the rounds among Arkansas officials is a comparison of hypothetical summer residential bills prepared by the Public Service Co. of Oklahoma. This study purports to identify that utility's residential electric rates as among the lowest in a seven-state region, including Arkansas. At the same time, it identified AP&L's rates as most expensive.

But AP&L officials view this study as statistically dubious, and with some good reason. For one thing, the study ignores nine utilities in the same region, including the two cheapest.

More important, officials say, the Oklahoma study is worthless because it focuses on just one month's rates for just one segment of utility customers. As such, it does not indicate that AP&L's summer rates are intentionally higher than winter rates to encourage customers to use power when it is cheapest for the utility to produce. Nor does the study account for the effect of utility taxes, which are higher in Arkansas than in any of the other states surveyed.

Attachment C

FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT
CALCULATED AS OF JUNE, 1984

ARKANSAS POWER & LIGHT COMPANY

LITTLE ROCK, ARKANSAS

42-364 172

FROST & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
WORTHEN BANK BUILDING
LITTLE ROCK, ARKANSAS
72201

A PROFESSIONAL ASSOCIATION

501-376-9241

BOARD OF DIRECTORS
ARKANSAS POWER & LIGHT COMPANY
LITTLE ROCK, ARKANSAS

THE ACCOMPANYING SCHEDULES SHOWING THE FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT BETWEEN ARKANSAS POWER & LIGHT COMPANY (AP&L) AND MISSISSIPPI POWER & LIGHT COMPANY (MP&L) UNDER THE AP&L DEFERRAL PLAN AND THE SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS IS AP&L MANAGEMENT'S ESTIMATE OF THE MOST PROBABLE EFFECT OF THE SETTLEMENT AGREEMENT BASED UPON INFORMATION AVAILABLE TO MANAGEMENT IN JUNE, 1984 WHEN THE FORECAST WAS PREPARED. ACCORDINGLY, THE FORECAST REFLECTS MANAGEMENT'S JUDGEMENT, BASED ON CIRCUMSTANCES EXISTING AT THAT TIME, OF THE MOST LIKELY SET OF CONDITIONS AND ITS MOST LIKELY COURSE OF ACTION. THE FORECAST HAS NOT BEEN UPDATED FOR ANY CHANGES IN THESE CIRCUMSTANCES THAT MAY HAVE OCCURRED SINCE THAT TIME.

WE HAVE MADE A REVIEW OF THE FINANCIAL FORECAST IN ACCORDANCE WITH APPLICABLE GUIDELINES FOR A REVIEW OF A FINANCIAL FORECAST ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. OUR REVIEW INCLUDED PROCEDURES TO EVALUATE BOTH THE ASSUMPTIONS USED BY MANAGEMENT AND THE PREPARATION AND PRESENTATION OF THE FORECAST. WE HAVE NO RESPONSIBILITY TO UPDATE THIS REPORT FOR EVENTS AND CIRCUMSTANCES OCCURRING AFTER THE DATE OF THIS REPORT.

BASED ON OUR REVIEW, WE BELIEVE THAT THE ACCOMPANYING FORECAST IS PRESENTED IN CONFORMITY WITH APPLICABLE GUIDELINES FOR PRESENTATION OF A FINANCIAL FORECAST ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. WE BELIEVE THAT THE UNDERLYING ASSUMPTIONS PROVIDED A REASONABLE BASIS FOR MANAGEMENT'S FORECAST

(CONT.)

AT THE TIME THIS FORECAST WAS PREPARED. HOWEVER, AS IS THE CASE IN ALL FORECASTS, SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE AND UNANTICIPATED EVENTS AND CIRCUMSTANCES MAY OCCUR; THEREFORE, THE ACTUAL RESULTS ACHIEVED DURING THE FORECAST PERIOD WILL VARY FROM THE FORECAST. THOSE VARIATIONS MAY OR MAY NOT BE MATERIAL TO THE FINAL RESULTS AS PRESENTED IN THE FORECAST.

Frost & Company
CERTIFIED PUBLIC ACCOUNTANTS

LITTLE ROCK, ARKANSAS
NOVEMBER 15, 1984

ARKANSAS POWER & LIGHT COMPANY

FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT CALCULATED AS OF JUNE, 1984

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

THIS FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT IS BASED ON MANAGEMENT'S ASSUMPTIONS CONCERNING FUTURE EVENTS AND CIRCUMSTANCES. THE ASSUMPTIONS DISCLOSED HEREIN ARE THOSE WHICH MANAGEMENT BELIEVES ARE SIGNIFICANT TO THE FORECAST OR ARE KEY FACTORS UPON WHICH THE FINANCIAL IMPACT OF THIS SETTLEMENT AGREEMENT DEPEND. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE AND UNANTICIPATED EVENTS AND CIRCUMSTANCES MAY OCCUR SUBSEQUENT TO JUNE, 1984, THE DATE THIS FORECAST WAS PREPARED BY MANAGEMENT. THE FORECAST HAS NOT BEEN UPDATED FOR ANY CHANGES THAT MAY HAVE OCCURRED SINCE THE DATE THE FORECAST WAS ORIGINALLY PREPARED. THEREFORE, THE ACTUAL RESULTS ACHIEVED DURING THE FORECAST PERIOD WILL VARY FROM THE FORECAST AND THE VARIATIONS MAY OR MAY NOT BE MATERIAL.

1. THE SETTLEMENT AGREEMENT CALLS FOR ARKANSAS POWER & LIGHT COMPANY (AP&L) TO BE ALLOCATED 17.1% OF THE CAPACITY AND ASSOCIATED ENERGY OF THE GRAND GULF UNIT 1 NUCLEAR GENERATING STATION. IT ALSO CALLS FOR AP&L TO SELL ITS CAPACITY AND ASSOCIATED ENERGY IN THE INDEPENDENCE UNIT 2 COAL GENERATING STATION (31.5% OF TOTAL CAPACITY OF THIS UNIT) TO MISSISSIPPI POWER & LIGHT COMPANY (MP&L). A FIVE-YEAR SHORT-TERM SALE HAS BEEN CONSUMMATED WITH AN OPTION TO EXTEND THE SALE FOR AN ADDITIONAL TWENTY YEARS CONTINGENT UPON THE SETTLEMENT AGREEMENT BEING ADOPTED BY THE FEDERAL ENERGY REGULATORY COMMISSION (FERC). THIS FORECAST CONSIDERS THE ENTIRE PERIOD OF THE SHORT-TERM SALE AS PART OF THE SETTLEMENT AGREEMENT AND IS BASED UPON THE OPTION TO EXTEND THE SALE BEING EXERCISED. THE SETTLEMENT AGREEMENT IS MADE BETWEEN AP&L AND MP&L.

2. THE FORECAST FOR AP&L BASE REVENUES BEFORE ANY IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT IS BASED ON AN ANNUAL RETURN ON YEAR-END COMMON STOCK EQUITY OF 15.65% (THE RATE OF RETURN PENDING BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION AT THE TIME THE FORECAST WAS PREPARED). EXPENSES ARE FORECAST TO INCREASE BASED ON FORECASTS FOR INFLATION PROVIDED BY DATA RESOURCES, INC. (DRI). REVENUES ARE BASED ON THESE EXPENSES AND THE FORECAST FOR RETURN ON EQUITY AND CONSIDER FORECASTED SALES INCREASES DUE TO INCREASES IN THE NUMBER OF TOTAL CUSTOMERS. THIS FORECAST OF BASE REVENUE WAS BASED ON NO ALLOCATION OF GRAND GULF UNITS 1 AND 2 TO AP&L.

3. THE RETURN ON COMMON EQUITY IS NOT FORECAST TO CHANGE AS A RESULT OF THE GRAND GULF SETTLEMENT AGREEMENT. THE REVENUES REQUIRED AS A RESULT OF THIS SETTLEMENT AGREEMENT ARE THEREFORE FORECAST AS THE ADDITIONAL REVENUES NECESSARY TO RECOVERY AP&L'S ALLOCATED SHARE OF THE REVENUES ALLOWED BY FERC TO BE CHARGED TO THE PARTICIPANTS IN GRAND GULF UNIT 1, ADJUSTED BY ANY FUEL SAVINGS (OR EXPENSES) AND RESERVE EQUALIZATION ADJUSTMENTS NECESSARY AS A RESULT OF THE SETTLEMENT.

4. AP&L PROPOSES TO DEFER ACTUAL COLLECTION FROM ITS CUSTOMERS OF A PORTION OF ITS SHARE OF THE EXPENSES OF GRAND GULF UNIT 1 FOR FIVE YEARS. THE AMOUNTS DEFERRED WOULD BE COLLECTED OVER THE NEXT FIVE YEARS WITH ALL THE DEFERRED EXPENSES COLLECTED BY THE END OF THE TENTH YEAR. THE EXPENSES TO BE DEFERRED, BASED ON AP&L'S DEFERRAL PLAN, ARE AS FOLLOWS:

ARKANSAS POWER & LIGHT COMPANY

FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT
CALCULATED AS OF JUNE, 1984

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONT.)

	CURRENT YEAR	CUMULATIVE
1985	$103,897,000	$103,897,000
1986	99,681,000	203,578,000
1987	74,686,000	278,264,000
1988	48,194,000	326,458,000
1989	24,845,000	351,303,000

COLLECTION OF THIS CUMULATIVE DEFERRED BALANCE WILL BE COLLECTED OVER THE NEXT FIVE YEARS AT $70,260,600 PER YEAR.

5. AP&L WILL EARN SUFFICIENT TAXABLE INCOME SUCH THAT IT WILL BE ALLOWED TO DEDUCT, FOR TAX PURPOSES, THE EXPENSES INCURRED BUT NOT COLLECTED DUE TO THE ABOVE DEFERRAL PLAN. THIS DEDUCTION WILL BE USED TO REDUCE INCOME TAXES THAT AP&L WOULD OTHERWISE BE REQUIRED TO PAY BASED ON TAXES FOR AP&L BEING COMPUTED ON A SEPARATE-RETURN BASIS.

6. COST OF MONEY CHARGES ON THE EXPENSES DEFERRED BY AP&L WILL BE COLLECTED CURRENTLY. THIS COST OF MONEY WILL BE COMPUTED BASED ON THE TOTAL DEFERRED EXPENSES LESS THE AMOUNT OF INCOME TAXES SAVED AS A RESULT OF DEDUCTION OF THE RELATED EXPENSES. THE RATES AND CAPITAL STRUCTURE FORECAST FOR PURPOSES OF COMPUTING THIS COST OF MONEY ARE AS FOLLOWS:

	PERCENTAGE OF TOTAL CAPITAL REQUIRED	INTEREST RATE OR RATE OF RETURN	WEIGHTED AVERAGE PRE-TAX RATE
BONDS	50%	12%	6.00%
PREFERRED STOCK	13%	12%	3.07%
COMMON STOCK	37%	15.65%	11.44%
	100%		20.48%

SINCE THE RETURN ON PREFERRED AND COMMON STOCK IS NOT TAX DEDUCTIBLE, THE ABOVE RATES ARE GROSSED UP TO A PRE-TAX RATE OF RETURN. THIS CONVERTS THE STATED RATES TO THE EFFECTIVE WEIGHTED AVERAGE RATE OF 20.48% WHICH IS USED TO COMPUTE THE COST OF MONEY ON THE CUMULATIVE, NET OF TAX, AVERAGE DEFERRED EXPENSE BALANCE OUTSTANDING.

7. GRAND GULF UNIT 1 COMMENCES COMMERCIAL OPERATION ON MARCH 1, 1985. CONSTRUCTION ON THE SECOND GRAND GULF UNIT STARTS IN MAY, 1985. GRAND GULF UNIT 2 IS COMPLETED AND COMMENCES COMMERCIAL OPERATION IN APRIL, 1991, BUT AP&L WILL NOT BE ALLOCATED ANY CAPACITY OF THIS SECOND UNIT.

8. FUEL COSTS OF ALL THE GENERATING UNITS IN THE MIDDLE SOUTH SYSTEM ARE FORECAST USING THE PROMOD ECONOMIC DISPATCH COMPUTER SYSTEM. THIS PROMOD SYSTEM

(CONT.)

ARKANSAS POWER & LIGHT COMPANY

FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT
CALCULATED AS OF JUNE, 1984

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONT.)

IS A PROPRIETARY COMPUTER SYSTEM OBTAINED FROM ENERGY MANAGEMENT ASSOCIATES, INC. IT PROJECTS THE GENERATION OF EACH UNIT IN THE MIDDLE SOUTH SYSTEM ON AN HOUR-BY-HOUR BASIS, BASED ON THE RESPECTVE FUEL COSTS AS INPUT, AND THE FORECAST FOR FUEL COST AND PURCHASED POWER EXPENSE IS DEVELOPED FOR EACH OF THE OPERATING COMPANIES. THIS INCLUDES POOL PURCHASES AND SALES BETWEEN THE COMPANIES FOR FUEL USAGE BASED ON THE MOST ECONOMICAL DISPATCH OF ALL THE GENERATING UNITS AVAILABLE TO THE MIDDLE SOUTH SYSTEM.

THE FUEL SAVINGS TO AP&L AS A RESULT OF THE SETTLEMENT IS DETERMINED BY COMPARING THE PROMOD FORECASTS OF FUEL AND PURCHASED POWER EXPENSE BASED ON THE BASE CASE, WITH NO EFFECT OF THE SETTLEMENT AGREEMENT, TO THE PROMOD FORECAST OF AP&L FUEL AND PURCHASED POWER EXPENSE AFTER CONSIDERING THE FULL IMPACT OF THE SETTLEMENT AGREEMENT.

THE FUEL COSTS USED TO DETERMINE THIS FUEL AND PURCHASED POWER EXPENSE ARE BASED ON FORECASTS MADE BY SYSTEM FUELS, INC. (SFI), A SUBSIDIARY OF AP&L AND THE OTHER OPERATING COMPANIES OF MIDDLE SOUTH UTILITIES, INC. (MSU). THESE COSTS ARE FORECASTED BASED ON CURRENT PRICES BEING PAID, CURRENT CONTRACT PRICES IN EFFECT, AND SHORT-TERM PRICE FORECASTS BY SFI PERSONNEL BASED ON THEIR KNOWLEDGE OF THE MARKET. LONG-TERM PRICE FORECASTS ARE BASED ON THESE CURRENT PRICES AS ADJUSTED FOR ESCALATIONS AND INFLATION. THESE FORECASTED INCREASES ARE BASED ON FORECASTS PROVIDED BY DATA RESOURCES, INC.

9. AP&L WILL RECOVER CERTAIN COSTS FROM MP&L DUE TO THE SALE OF ITS CAPACITY IN INDEPENDENCE UNIT 2. THIS RECOVERY OF COSTS WILL BE BASED ON DEPRECIATION EXPENSE, INTEREST COSTS, PROPERTY AND FRANCHISE TAXES, INSURANCE EXPENSE, OPERATING AND MAINTENANCE EXPENSE, AND CERTAIN ALLOCATED OVERHEAD EXPENSES OF THE COMPANY'S SHARE IN THIS UNIT. IN THE FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT, THIS COST RECOVERY IS INCLUDED WITH THE RESERVE EQUALIZATION IMPACT.

10. UNDER THE MIDDLE SOUTH SYSTEM AGREEMENT, THE OPERATING COMPANIES HAVE A RESERVE EQUALIZATION AGREEMENT. UNDER THIS AGREEMENT, THE COMPANIES ARE RESPONSIBLE FOR THEIR PROPORTIONATE SHARE OF THE RESERVE CAPACITY UNITS BASED ON THEIR RESPECTIVE SHARE OF THE TOTAL MONTHLY LOAD ON THE SYSTEM. WHEN A COMPANY IS LONG (WHEN IT HAS MORE THAN ITS SHARE OF RESERVE CAPACITY), IT IS REIMBURSED FOR CERTAIN OF ITS COSTS RELATED TO THESE UNITS BY THE COMPANIES WHICH ARE SHORT OF THEIR SHARE OF RESERVE CAPACITY.

    THE FORECAST OF THE RESERVE EQUALIZATION IMPACT OF THE SETTLEMENT AGREEMENT IS MADE BY COMPARING FORECASTS MADE UNDER THE BASE CASE, WITH NO IMPACT OF THE SETTLEMENT AGREEMENT, TO FORECASTS AFTER ADJUSTING EACH OF THE OPERATING COMPANIES' CAPACITIES FOR THE EFFECT OF THE SETTLEMENT AGREEMENT.

11. THE GRAND GULF STATION IS OWNED BY MIDDLE SOUTH ENERGY, INC. (MSE), ANOTHER SUBSIDIARY OF MSU. THE REVENUE REQUIREMENT FOR GRAND GULF UNIT 1 IS DUE FROM AP&L TO MSE. THIS REVENUE REQUIREMENT IS COMPUTED BASED ON MSE RECEIVING A 16% ANNUAL RATE OF RETURN ON ITS AVERAGE COMMON EQUITY.

ARKANSAS POWER & LIGHT COMPANY

FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT
CALCULATED AS OF JUNE, 1984

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONT.)

12. IN COMPUTING THE AVERAGE COMMON EQUITY OF MSE, DIVIDENDS OF 10% ON THE AVERAGE COMMON EQUITY ARE TO BE PAID TO MSU ON AN ANNUAL BASIS.

13. THE TOTAL COST OF GRAND GULF UNIT 1, INCLUDING CAPITALIZED TAXES AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC), WILL BE APPROXIMATELY $3,064,663,000 AT MARCH 1, 1985, WHEN THE UNIT COMMENCES COMMERCIAL OPERATIONS.

14. DEPRECIATION WILL BE PROVIDED USING A "UNITS OF PRODUCTION" METHOD BASED ON ACTUAL GENERATION FROM THE UNIT. IN COMPUTING THIS UNITS OF PRODUCTION FACTOR, THE UNIT'S LIFE IS ASSUMED TO BE 40 YEARS AND THE UNIT IS ASSUMED TO RUN AT AN AVERAGE ANNUAL CAPACITY OF 70%. PROVISION IS MADE IN THIS UNITS OF PRODUCTION DEPRECIATION CALCULATION FOR AVERAGE RETIREMENTS OF INDIVIDUAL ITEMS INCLUDED IN TOTAL PLANT COST.

15. OPERATING AND MAINTENANCE EXPENSES ARE FORECASTED BY NUCLEAR STATION ACCOUNTING PERSONNEL OF MP&L WHO ARE PERFORMING THE ACCOUNTING FUNCTIONS FOR GRAND GULF UNIT 1. THESE EXPENSES ARE FORECASTED BASED ON THE ACCOUNTING PERSONNEL'S MOST CURRENT EXPECTATIONS, AT THE TIME THE OVERALL FORECAST WAS PREPARED, OF THE COSTS NECESSARY TO OPERATE AND MAINTAIN THE PLANT. THE MP&L PERSONNEL COMPARED THIS FORECAST OF EXPENSES TO AVAILABLE FIGURES ON OTHER NUCLEAR GENERATING FACILITIES TO DETERMINE THE REASONABLENESS OF THE FORECASTED EXPENSES.

16. IN FORECASTING OPERATING AND MAINTENANCE EXPENSE, IT IS ASSUMED THAT 20% OF THE TOTAL EXPENSES INCURRED WILL BE CAPITALIZED IN PLANT COST. THIS ADDITIONAL PLANT COST IS ASSUMED TO REPLACE EARLY RETIREMENTS SUCH THAT TOTAL PLANT COST FOR DEPRECIATION PURPOSES DOES NOT CHANGE.

17. THE FORECASTS FOR OPERATING AND MAINTENANCE EXPENSES ARE BASED ORIGINALLY ON A ONE-UNIT OPERATION. IN ADJUSTING THESE EXPENSES FOR THE ADDITION OF GRAND GULF UNIT 2, IT IS ASSUMED THAT THE ONE-UNIT EXPENSES WOULD BE 70% OF THE TOTAL EXPENSES NECESSARY TO OPERATE AND MAINTAIN TWO UNITS AT THE SAME SITE DUE TO THE SHARING OF CERTAIN EXPENSES.

18. INSURANCE AND PROPERTY TAXES OF GRAND GULF UNIT 1 ARE BASED ON THE FORECASTED PLANT COSTS AND THE APPROPRIATE TAX AND INSURANCE RATES.

19. INTEREST EXPENSES AND PREFERRED STOCK DIVIDENDS OF MSE ARE FORECASTED BASED ON THE EXPECTED CAPITAL STRUCTURE AND INTEREST RATES OF MSE DURING THIS PERIOD. THESE ASSUMPTIONS ARE SUMMARIZED AS FOLLOWS:

    a. INTEREST RATES ON LONG-TERM NOTES ARE FORECASTED AT 110% OF PRIME PLUS A 1.3% ADD ON AND A 0.5% COMMITMENT FEE. THE PRIME INTEREST RATE IS FORECASTED TO BE 12% FOR 1985 THROUGH 1987 AND 11% THEREAFTER. THE BALANCE IN LONG-TERM NOTES AT THE END OF 1984 IS FORECASTED TO BE $1,827,000 WITH ADDITIONAL BORROWINGS AND REPAYMENTS FORECASTED AS FOLLOWS:

ARKANSAS POWER & LIGHT COMPANY

FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT
CALCULATED AS OF JUNE, 1984

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS (CONT.)

	ADDITIONAL BORROWINGS	REPAYMENTS
1985	$ 670,000,000	$ 976,000,000
1986	1,538,000,000	1,599,000,000
1987	1,234,000,000	1,533,000,000
1988	997,000,000	1,161,000,000
1989	935,000,000	1,054,000,000
1990	269,000,000	878,000,000
1991	-	269,000,000

b. FIRST MORTGAGE BOND ISSUANCES ARE FORECASTED TO BE MADE AT THE PRIME INTEREST RATE. THE FORECASTED BALANCE FOR THESE BONDS, INCLUDING POLLUTION CONTROL BONDS, AT THE END OF 1984 IS $830,000,000. ADDITIONAL BOND ISSUANCES ARE FORECASTED AT APPROXIMATELY $300,000,000 PER YEAR THROUGH 1991.

c. PREFERRED STOCK DIVIDEND RATES ARE FORECASTED AT THE PRIME INTEREST RATE. THE FORECASTED PREFERRED STOCK ISSUANCES ARE $100,000,000 PER YEAR FROM 1985 THROUGH 1989 AND $75,000,000 IN 1990.

d. RETIREMENTS OF COMMON STOCK ARE FORECASTED TO BEGIN IN 1991 AFTER COMPLETION OF THE SECOND GRAND GULF UNIT. AFTER THAT TIME, THE CAPITAL STRUCTURE OF MSE IS FORECASTED AS FOLLOWS:

LONG TERM DEBT AND BONDS	50%
PREFERRED STOCK	10%
COMMON STOCK	40%

20. CERTAIN INTEREST EXPENSE AND RETURNS ON EQUITY WILL BE CAPITALIZED DURING CONSTRUCTION OF THE SECOND GRAND GULF UNIT AS AFUDC. THE AMOUNT CAPITALIZED IN THIS MANNER IS BASED ON THE WEIGHTED AVERAGE EFFECTIVE RATE OF MSE APPLIED TO THE AVERAGE CONSTRUCTION WORK IN PROCESS BALANCES OF MSE. THE RETURN ON COMMON STOCK USED IN THIS COMPUTATION IS 16%.

21. THE FORECAST FOR MSE ASSUMES THAT CONSTRUCTION OF ADDITIONAL COAL GENERATING UNITS WILL COMMENCE IN 1991 FOLLOWING COMPLETION OF THE SECOND GRAND GULF UNIT. AFUDC IS ALSO CAPITALIZED AS PART OF THE COST OF THESE UNITS.

22. INCOME TAXES ON THE EARNINGS OF MSE ARE PROVIDED AT THE APPROPRIATE STATUTORY TAX RATES. INVESTMENT TAX CREDITS UTILIZED ARE AMORTIZED OVER 40 YEARS AS A REDUCTION OF THE REVENUE REQUIREMENT.

23. THE FORECAST OF THE PERCENTAGE INCREASE IN REVENUES DOES NOT CONSIDER THE POSSIBLE DECREASE IN DEMAND THAT MAY OCCUR IF RATES ARE INCREASED TO GENERATE THIS REVENUE (THAT IS, PRICE ELASTICITY).

(CONT.)

SCHEDULE A

NET COST (SAVINGS) TO THE CUSTOMERS FROM THE SETTLEMENT	CUMULATIVE PERCENTAGE CHANGE FROM BASE REVENUE (4)	ANNUAL PERCENTAGE CHANGE (5)
$ (7,299)	(0.69%)	(0.69%)
25,402	2.25%	2.94%
40,561	3.37%	1.12%
73,045	5.58%	2.21%
84,651	6.15%	0.57%
153,600	9.48%	3.33%
176,908	10.36%	0.88%
169,893	8.96%	(1.40%)
162,506	8.01%	(0.95%)
150,912	6.82% (6)	(1.19%)
$1,030,179	(7)	-

SCHEDULE B

NET MSE REVENUE REQUIREMENT RECOVERED	FINANCING COST ON AMOUNT DEFERRED (2)	TOTAL MSE REVENUE REQUIREMENT RECOVERED
$ 24,153	$ 5,400	$ 29,553
43,479	15,982	59,461
54,614	25,046	79,660
82,138	31,433	113,571
91,783	35,229	127,012
183,373	32,869	216,242
185,857	25,565	211,422
180,517	18,260	198,777
174,564	10,956	185,520
169,260	3,652	172,912
$1,189,738	$204,392	$1,394,130

SCHEDULE C

ARKANSAS POWER & LIGHT COMPANY

FORECAST OF THE IMPACT OF THE GRAND GULF SETTLEMENT AGREEMENT CALCULATED AS OF JUNE, 1984

SCHEDULE OF POTENTIAL EFFECT OF SELECTED CHANGES IN THE FORECAST

	CUMULATIVE PERCENTAGE CHANGE FROM BASE REVENUE		
YEAR	AS FORCASTED (1)	AFTER FORECASTED EFFECT OF PRICE ELASTICITY (2)	ASSUMING 10% INCREASE IN MSE REVENUE REQUIREMENT (3)
1985	(0.69%)	(0.94%)	0.52%
1986	2.25%	2.74%	3.51%
1987	3.37%	4.12%	4.45%
1988	5.58%	6.80%	6.57%
1989	6.15%	7.54%	7.00%
1990	9.48%	11.50%	10.18%
1991	10.36%	12.61%	11.04%
1992	8.96%	10.82%	9.54%
1993	8.01%	9.51%	8.53%
1994	6.82%	8.01%	7.27%
AVERAGE (4)	6.63%	7.86%	7.39%

(1) SEE SCHEDULE A

(2) ASSUMES THAT DEMAND WILL DECREASE BY A PERCENTAGE EQUAL TO 3% FOR A 10% INCREASE IN THE FORECASTED PRICE FOR THAT SAME YEAR.

(3) AP&L DOES NOT EXPECT SUCH AN INCREASE IN THE REVENUE REQUIREMENT OF MSE (SEE SCHEDULE B). HOWEVER, THIS IS PRESENTED TO SHOW THE EFFECT IF SUCH A CHANGE OCCURRED. A 10% INCREASE COULD CONSIST OF INCREASED DEPRECIATION (DUE TO INCREASED TOTAL PLANT COST), INCREASED OPERATING AND MAINTENANCE EXPENSES, INCREASED INTEREST RATES AND/OR DEBT OUTSTANDING AND/OR INCREASED RETURNS REQUIRED ON COMMON OR PREFERRED STOCK.

IT WOULD PROBABLY REQUIRE A DELAY OF OVER ONE YEAR IN THE COMMERCIAL OPERATION OF GRAND GULF UNIT 1 TO CAUSE AN INCREASE OF 10% IN THE OVERALL REVENUE REQUIREMENT.

(4) SEE FOOTNOTE (7) ON SCHEDULE A.

ATTACHMENT D

Analysis of the Significance
of Electrical Energy Costs
to Industrial Establishments
in Arkansas

Prepared by:

Phillip Taylor
Director, Bureau of Business and Economic Research
Professor, Data Processing and Quantitative Analysis

and

Mary S. Hirsch
Instructor, Data Processing and Quantitative Analysis

Bureau of Business and Economic Research
College of Business Administration
University of Arkansas, Fayetteville

November 27, 1984

Preface

This research project was done in cooperation with the Arkansas Industrial Development Commission and supported through a grant from Arkansas Power and Light Company. However, neither of the above parties had access to the data gathered in the research effort, nor to the detailed analyses, beyond that included in the following pages.

The conclusions reached herein are those of the authors and not necessarily those of the Arkansas Industrial Development Commission, Arkansas Power and Light Company, or the University of Arkansas, Fayetteville.

Phillip Taylor
Mary S. Hirsch

Executive Summary

This study was undertaken to investigate: 1) the significance of electric energy costs to a sample of major industrial firms with plant locations within the Arkansas Power & Light Company (AP & L) service area in Arkansas; 2) the relative importance of electric energy costs between industries in that portion of Arkansas served by AP & L as compared to other locations; 3) the attitudes toward, and expectations for the future of, the economic climate of Arkansas among the managers of these Arkansas manufacturing facilities; and 4) their perceptions of the advantages and disadvantages of Arkansas as a location for manufacturing establishments.

Summary of Findings

Historical and current data indicate that electric energy cost for manufacturing establishments in Arkansas, and the AP & L service area, are at or below the national average. There is, however, concern expressed by the respondees about both the future cost of energy and the uncertainty created by the current Grand Gulf/System Average costing controversy. The uncertainty of the issue was cited frequently as a concern rather than the actual level of costs.

The data do not, however, suggest a catastrophic impact on industry in the state as a result of these issues. Asked to take a long term (1985-1990) outlook; approximately 42 percent of the firms expected expansion and 39 percent predicted a continuation of current levels of production. Twelve percent did anticipate cutbacks in their facilities. Over two-thirds of the respondents anticipated that any expansion of capacity would take place in Arkansas. Of this group, over 83 percent believe expansion would be in the form of an increased investment at their present Arkansas location.

Data from the firms responding to the questionnaire indicate that electric energy accounted for an average of 4.58 percent of the total operating costs of manufacturing firms. This ranged from a low of 1.2 percent among the electric and electronic equipment manufacturers (SIC 36) to a high of 6.7 percent among the petroleum and coal products manufacturing group (SIC 29).

The strongest favorable factors listed by the survey participants indicating any expansion of their firm would likely be in Arkansas center upon both the quantity and work ethic of its labor force, the state's central location, the availability of raw materials, and the fact that facilities presently exist here and are viewed as expandable. Energy positives included availability and cost.

Generally viewed as negative determinants of expansion were dwindling or inadequate timber and oil resources, increasing labor and production cost, the level of skills of potential employees, and higher and uncertain energy cost. Overall, the positive comments concerning Arkansas as a choice for expansion outnumbered the negative ones about 2-1.

In addition to being asked about the liklihood of expansion, individuals completing the questionnaire were requested to state what, in their opinion, are the three most positive aspects, as well as the three most negative aspects, of their plant's location in Arkansas. Based on the frequency of response, labor, both the quantity and work ethic, is the most positive factor that an Arkansas location has to offer. Indeed, this was mentioned by 79 of the respondents. However, detracting somewhat from this positive was the view by some that there was a shortage of skilled labor and perceived inadequate vocational-technical training programs.

The central location of Arkansas, its resources (raw materials), and weather were frequently listed as location advantages. On the negative side, inadequate transportation and the distance from suppliers, customers, and corporate headquarters presented problems for some firms.

Based on the survey, there appears to be no clear pattern that government, either state or local, is either an advantage or disadvantage. However, the quality of education was mentioned as a negative on several forms.

Data supplied by the participants were not sufficient to answer element 2) of the study - that is, compare AP & L electricity cost with other trade areas. However, other data indicate that current AP & L Industrial rates compare quite favorably to other parts of the nation. Whether that advantage would remain in the future depends on the level of allocation of Grand Gulf and more importantly, on whether the Company is successful in its attempt to defeat the System average costing issue. Moreover, elsewhere in the nation many large power units are "coming on-line" and, as this occurs, there will be significant rate impacts. Consequently, Arkansas and AP & L's competitive position vis a vis other states will continue to change.

Methodology

The questionnaires (see Appendix B) used in the study to gather current data were developed by personnel of the Bureau of Business and Economic Research (BBER) of the University of Arkansas, Fayetteville, with assistance from staff members of the Arkansas Industrial Development Commission (AIDC). One questionnaire was created to elicit information concerning plants located in AP & L's service area, and the other questionnaire was designed to obtain similar data from plants of the same firms but located elsewhere. Both questionnaires were divided into sections with Section II of each questionnaire requesting information concerning employment, payroll, value of shipments, etc., in a form similar to that contained in the *Annual Survey of Manufactures* published by the Bureau of the Census. Section III of the questionnaire sent to Arkansas plants elicited data on various forms of energy purchased, and Section IV of that questionnaire contained questions concerning levels of production, outlook for the facility, opinions concerning Arkansas as a plant location, etc.

The study and questionnaires, in preliminary form, were discussed with management personnel from two Arkansas plants prior to the finalization and distribution of the questionnaire.

The plants selected to receive the questionnaire were approximately the top ten percent of AP & L's customers in each of the manufacturing Standard Industrial Classification (SIC) groups, or a total of 181 plants. The top ten percent was measured in terms of dollar sales in 1983.

An individual at each plant was identified as the contact person for the study, and prior to the delivery of the questionnaire, David Harrington of the AIDC wrote each to tell them about the project and request their cooperation. The questionnaires were hand delivered to the plant contacts in June/July 1984. The packages delivered included a letter from Phillip Taylor of the BBER, a copy of the questionnaire for that plant, three copies of the questionnaire for plants outside the AP & L service area, and envelopes for returning the completed questionnaires to the University. Subsequently, two follow-up letters were sent encouraging participation in the study.

The above actions resulted in a total of 100 responses or 55 percent. Of the 100, only 76 were totally completed for a return of 42 percent of the total mailout. IT IS IMPORTANT TO NOTE THAT THE SURVEY MATERIAL COVERED WHAT MANY PARTICIPANTS CONSIDERED VERY CONFIDENTIAL AND SENSITIVE INFORMATION. THIS FACT IMPACTED THE LEVEL OF PARTICIPATION IN THAT SEVERAL FIRMS RESPONDED THAT COMPANY POLICY PROHIBITED DISCLOSURE OF THE DATA.

The analysis employed by the researchers was designed to utilize the maximum amount of information for any given variable. The responding firms represent over 33,000 employees within the AP & L service area and accounted for approximately 39 percent of the total kwh usage and revenue of the Company for the customer group (manufacturing firms) studied.

Introduction

There are a great many factors that affect the location choices (continuation and expansion of existing facilities, as well as the creation of new ones) of private firms, and these factors are, for the most part, those that will, or it is expected that they will, impact upon the expected profitability of a location. That is, a rational firm will make location choices premised upon expected contributions to long term profitability. The factors are related to both expected revenues and expected costs. Moreover, the significance of a factor will vary between firms, between industries, and over time.

The importance of the cost, and ready availability, of energy as a location factor was enhanced by the increased price of petroleum that followed the Arab oil embargo. The economic consequences of this incident varied between firms, industries, and geographic regions. The current cost of, and demand for, electric energy is one such consequence in that petroleum products (oil and gas) are frequently a factor of production of electric energy and, in many instances, its substitute. As with other industries, increases in petroleum cost, or for that matter, the cost of any factor of production, do not uniformly impact upon all electric energy producers and, consequently, upon all consumers of electric energy.

The purpose of this study is to investigate 1) the significance of electric energy costs (one location factor) among a selected group of firms with plant locations within the Arkansas Power and Light Company (AP & L) service area in Arkansas; 2) the relative importance of electric energy costs between industries in the portion of Arkansas served by AP & L as compared to other locations, 3) the attitudes toward, and expections for the future of, the economic climate of Arkansas among the managers of selected Arkansas manufacturing facilities, and 4) the advantages and disadvantages of Arkansas as a location for manufacturing establishments.

A Historical Perspective of Expenditures on Electric Energy in the Manufacturing Sector

Over the four years from 1974 to 1978, the amount of electric energy purchased per employee in manufacturing industries in the U.S. decreased slightly from 32,954 kwh to 32,948 kwh. In this same time frame, the amount of electric energy purchased per employee in manufacturing industries in Arkansas increased from 34,577 kwh to 39,095 kwh. There are several possible explanations for the disparity between Arkansas and the nation. First, the mix of industries could contribute to the difference. Second, data are an average for all employees, not just production workers. Third, plants in Arkansas could be more capital intensive. Fourth, and alternatively, plants in Arkansas could be less energy efficient.

Total purchases of electric energy by U.S. manufacturing firms was $452 per employee in 1974. In terms of value of shipments (VS) by manufacturers in 1974, electric energy purchased (EEP) accounted for $0.0082 per dollar and, when compared to each dollar of value added, it was $0.0187. Manufacturing firms in Arkansas spent $503 per employee for electric energy. When compared to each dollar of value added by manufacture, electric energy purchased was $0.0268 and, as compared to value of shipments (EEP/VS), it was $0.0107. In 1978, the national figures were $829 per employee; $0.0259 per dollar of value added; and per dollar of value of shipments, $0.0111. For that same year (1978), Arkansas manufacturing firms purchased $921 in electric energy per employee; $0.0344 per dollar of value added; and $0.01356 per value of shipments dollar.

One further comparison between aggregate data for Arkansas and the U.S. should be noted. Electric energy purchased by manufacturing firms in 1974 had an average price of $0.0146 per kwh in Arkansas and $0.0137 per kwh in the U.S. Thus, in 1974, the average cost of electric energy in Arkansas was 6.6 percent higher than the national average. In 1978, the figure for Arkansas was $0.0236, and for the U.S., $0.0252, so that the average for Arkansas dropped to 6.3 percent below that of the nation. Thus, between 1974 and 1978, the cost per kwh grew at an annual (compound) rate of 12.8 percent in Arkansas and 16.5 percent in the U.S. This point introduces the possibility that the greater rate of growth in the average kwh purchased per employee in Arkansas, between 1974 and 1978, relative to the U.S., was at least partially price induced. Actually the competitive advantage (price differential) between Arkansas and the U.S. continued to widen at least through 1980. Specifically, in 1979, the cost per kwh was $0.0251 and $0.0278 in Arkansas and the U.S., respectively. For 1980, the two had kwh costs of $0.0286 (Arkansas) and $0.0331 (U.S.). The U.S. figure for 1981 was approximately $0.0382.

While they are more inclusive than the group of Standard Industrial Classifications (manufacturing firms) referred to in the previous paragraph, estimates[1] are available for the cost of electric energy to industrial customers in Arkansas. For 1982, the cost per kwh is estimated as $0.0371 and for 1983, $0.0387.

---

[1] Based upon the industrial customers of AP & L, SWEPCO and OG & E in Arkansas; member cooperatives of AECC; and the four largest municipal electric utilities.

Aggregate figures on electric energy purchased by the manufacturing sector will, quite obviously, vary between states because 1) the structure of the manufacturing sector differs between states, and 2) the amount of electric energy purchased varies between industries. Thus, one might desire to examine each industry on the basis of the share of the value of its shipments that is attributable to electric energy purchased, its employment, payroll, etc. While data on profit margins and elasticity of demand are unavailable, the value added by manufacture may, _ceteris_ _paribus_, be indicative of the margin resulting from operations. In any event, value added is considered to be a better measure of manufacturing activity than value of shipments. Consequently, a discussion and detailed information pertaining to various SIC classifications in 1974 and 1978 is included in Appendix A.

Scope and Design of the Study

The questionnaires (see Appendix B) used in the study to gather current data were developed by personnel of the Bureau of Business and Economic Research (BBER) of the University of Arkansas, Fayetteville, with assistance from staff members of the Arkansas Industrial Development Commission (AIDC). One questionnaire was created to elicit information concerning plants located in AP & L's service area and the other questionnaire was designed to obtain similar data from plants of the same firms but located elsewhere. Both questionnaires were divided into sections, and Section II of each requested information concerning employment, payroll, value of shipments, etc. in a form similar to that contained in Annual Survey of Manufactures published by the Bureau of the Census. Section III of the questionnaire sent to Arkansas plants elicited data on various forms of energy purchased, and Section IV of that questionnaire contained questions concerning levels of production, outlook for the facility, opinions concerning Arkansas as a plant location, etc. The study and questionnaires, in preliminary form, were discussed with management personnel from two Arkansas plants prior to the finalization and distribution of the questionnaire.

The plants selected to receive the questionnaire were approximately the top ten percent of AP & L's industrial customers in each Standard Industrial Classification (SIC) manufacturing group, or a total of 181 plants. The top ten percent was measured in terms of dollar sales in 1983.

A person at each plant was identified as the contact person for the study, and prior to the delivery of the questionnaire, David Harrington of the AIDC wrote each to tell them about the project and request their cooperation. The questionnaires were hand delivered to the specified contact person at each plant by AP & L Customer Service Representatives in late June/early July 1984. The packages delivered to each plant included a letter from Phillip Taylor of the BBER, a copy of the questionnaire for that plant (with a sheet defining terms), three copies of the questionnaire for plants outside the AP & L service area, and envelopes for returning the completed questionnaires to the University. Subsequently, two follow-up letters were sent encouraging participation in the study.

Analysis of the Significance of Electric Energy Costs

Of the 181 questionnaires distributed, 100[2] were returned in various stages of completion. Thus, the number of observations varies according to the availability of answers.[3] Because of the need to protect confidentiality, it is necessary to omit some groups when reporting the data classified by SIC. That, along with the fact that no usable responses were received for SIC 23 (Apparel and Other Textile Products) and SIC 38 (Instruments and Related Goods) reduces the number of SIC specific categories that can be reported.

Based on the questionnaires of 76 respondents that provided answers to all relevant questions, the average cost of purchased electrical energy was $0.0448 per kwh. The respondents purchased 44,757 kwh per employee, at an average cost of $2,007. Their EEP/VS ratio[4] was 0.0185 and electric energy purchased equaled 2.84 percent of their cost of materials and services.[5] The responding firms had a total employment of 27,752, or 365 employees per firm. These firms accounted for approximately 20 percent of the employment and 39 percent of the electric energy usage (kwh and dollars) in the AP & L service area.

---

[2] One questionnaire contained information on more than one establishment but it was treated as a single response.

[3] The number of respondents upon which the data are based is given in brackets [ ].

[4] EEP/VS is electric energy purchased divided by value of shipments. The definition for value of shipments is included with the questionnaire in Appendix B.

[5] A definition of this term is provided in Appendix B.

Using the maximum number of responses for each variable, the reported values change, but only modestly. The average cost of purchased electric energy becomes $0.0444 per kwh [91]. The respondents purchased 48,097 kwh [85] per employee, at an average cost of $2,256 [92]. Their EEP/VS ratio was 0.0199 [85] and electric energy purchased equaled 2.9 percent [83] of their cost of materials and services.

Based on all firms supplying the relevant data, the mean electricity expenditures as a percent of total operating costs was 4.58 [83] and the mean for total operating costs as a percent of sales was 84.70 [75]. Alternatively, the means of the SIC groups were 4.63 for electricity as a percent of total operating costs and 82.27 for total operating costs as a percent of sales.

The responding firms had a total employment of 33,364, or 363 employees per firm [93]. This amounted to 24 percent of the employment in the AP & L service area. The ninety-one firms supplying energy data used approximately 51 percent of the kwh and produced 50 percent of the revenues from the combined industries.

Food and Kindred Products (SIC 20)

From the standpoint of employment, this is the largest SIC group in the AP & L service area. Of the 35,800 employed in this sector in Arkansas, 49 percent, or 17,500, are in areas served by AP & L. The responding firms [12] had 8,201 employees (683 per firm) or 47 percent of that in this SIC within the service area.

This industry reported a mean EEP/VS ratio of 0.0137 [11] for 1983, an increase of 0.0072 over 1978.[6] Their electric energy purchased per employee was 27,222 kwh [13], with a cost per employee of $1,319 [14]. Usage was down 1,744 kwh per employee and cost was up $526 as compared to 1978.

Purchased electricity was equal to 1.92 percent of the cost of materials and services [12] for the industry as a whole. The average proportion of total operating costs[7] attributable to electricity costs for the firms was 4.4 percent [12]. Operating costs, as a percent of sales, were 81.7 percent [10] when computed as an average of firms.[8]

The average cost of electric energy for the industry was $0.0483 per kwh [14]. These firms consumed approximately 52 percent of the kwh and provided 54 percent of the revenue in this SIC.

Lumber and Wood Products (SIC 24)

This sector employs 16,000 individuals in the AP & L area, or 82 percent of the industry total in Arkansas. Respondents [15] employed 3,457 individuals (with a mean per firm of 230) or 22 percent of the SIC total in the service area.

With an EEP/VS ratio of 0.035 [16], this industry was the third highest of any reported.[9] This was 0.036 below that reported in 1978.

---

[6] This is the last year for which published data classified by SIC at the state level are available.

[7] See Appendix B for a definition of total operating costs.

[8] The Coefficient of Variation (CV) was equal to 36.0. This is a statistical measure of relative dispersion and indicates the homogeneity of the values in the data set.

[9] Based upon firms providing full information.

The industry cost per kwh was $0.0505 [13] and electricity costs were equal to 5.4 percent [16] of the cost of materials and services.

For the total industry in Arkansas, the utilization of electric energy averaged 53,717 kwh [13] and $2,561 per employee [16].

As an average per firm, electricity costs were 6.0 percent [15] of total operating costs. Computed in the same manner, operating costs as a percent of sales were 86.5[10] [14].

Firms participating in the study [13] used 40 percent of the kwh and produced 39 percent of the revenue for this SIC within the area served by AP & L.

Paper and Allied Products (SIC 26)

In 1983, employment in this SIC classification was 9,600 and 12,300 in the AP & L service area and Arkansas, respectively.

This manufacturing sector reported a EEP/VS ratio of 0.031 [6], up 0.010 from 1978. The industry average cost per kwh was $0.0412 [6].

Electric energy purchased per employee, for the industry, was 128,124 kwh, or $5,274 [6]. Total expenditures on electricity were equal to 6.1 percent of the cost of materials and services [5].

The per firm average for electricity costs as a percent of total operating costs was 3.7 [6] and operating costs as a percent of sales were 92.8 [5].[11] Mean employment per firm was 518, for a total of 3,108 [6]. This is 32 percent of the service area employment for this SIC.

---

[10] CV = 11.0.

[11] CV = 7.5.

The six firms supplying data accounted for 72 percent of the kwh utilized and provided 73 percent of the revenue derived from this SIC.

Chemicals, Allied Products (SIC 28)

Almost ninety percent, or 5,400, of the 6,100 individuals in this sector in Arkansas are employed within the AP & L service area. Responding establishments had a total employment of 1,510 [5] and averaged 302 per facility. Twenty-eight percent of this SIC's employment in the service area was included in the study group.

This was the second highest reported industry EEP/VS ratio at 0.0340 [5] and showed an increase of 0.0166 over 1978. Average cost per kwh for the industry was $0.0374 [4]. This group of four firms consumed approximately 60 percent of the kwh and contributed 56 percent of the revenue AP & L derived for this industry group.

Overall, the industry spent an average of $8,874 [5] for 232,991 kwh [4] per employee.

Expenditures on electricity from the industry were equivalent to 6 percent of the cost of materials and services [5]. On a per firm basis, electricity costs as a percent of total operating costs were 4.2 [5].[12] In relationship to sales, the average firm total operating cost was 87.6 percent [4].[13]

Petroleum and Coal Products (SIC 29)

Ninety-three percent (1,300) of this sector's employment in 1983 was within the AP & L service area.

---

[12] CV = 31.8.

[13] CV = 7.0.

The per employee cost of electric energy was $10,170 [4]. The mean per firm percent of operating expenses accounted for by electric energy was 6.7 percent [4]. The four firms for which data can be reported employed a total of 643 individuals, with a per establishment average of 161. This amounted to 49 percent of SIC 29's employment within AP & L's service area.

Rubber, Miscellaneous Plastic Products (SIC 30)

Within the AP & L service area, this industry employs 4,600 workers, or about one-half the state total. The five firms responding had a total employment of 1,319 (an average of 264) for 29 percent of the service area's employment in this SIC.

The EEP/VS ratio reported by this industry [5] was 0.0167. This was an increase of only 0.0004 since 1978. The industry average cost for electric energy purchased was $0.0441 per kwh [6].

Industry usage of electricity was equivalent to 47,577 kwh per employee [5], with a per employee cost of $2,144 [5]. The industry average expenditure on electricity was equal to 2.3 percent [5] of the cost of materials and services.

The mean of the data reported by firms shows electricity cost to be 2.4[14] percent of total operating cost [5].[15] Similarly, total operating costs were 94.0[16] percent [5] of sales.

---

[14] CV = 15.4.

[15] It is readily apparent that expenditures on electric energy as a percentage of the cost of materials and services should be less than electricity cost as a percent of total operating costs. However, for SIC 30 and SIC 33 that is not the case for data presented in this report. The source of this difference rests with the computation methods utilized. Electricity as a percent of materials and services

The six firms included in the study reported electric energy usage (kwh) of approximately 57 percent of the SIC total within the AP & L area, along with 56 percent of the revenue derived from this group.

Primary Metals Industries (SIC 33)

Within Arkansas, employment in this SIC classification totals 7,200. In the area served by AP & L, industry employment is 5,000.

Some of the largest electric energy users in this sector did not respond to the survey. Consequently, the results cannot be compared directly to those reported by the Bureau of the Census in 1978.

The industry reported EEP/VS ratio was 0.0200 [6], with an average cost of $0.050 per kwh [7]. Utilization of purchased electric energy, per employee, for the industry was 49,502 kwh [6] with a cost of $2,512 [6]. The electric energy expenditures reported were equal to 2.6 percent of the cost of materials and services for the industry [6].

The averages for electricity expenditures as a percent of total operating costs and total operating costs as a percent of sales were 3.1 percent[17] and 97.7[18] percent, respectively [6]. The six responding firms had a mean employment of 300 each, or a total of 1,799, and

---

was computed by summing the dollar amounts of each variable for the industry and then determining a percentage. (This procedure gives added weight to larger establishments.) Electricity cost as a percent of total operating costs was computed as the mean of reported percentages for the industry. (This procedure gives equal weights to all establishments.)

[16] CV = 2.9.

[17] Please see footnote 14.

[18] CV = 5.9.

accounted for about 36 percent of this industry's employment in the service area.

The firms [7] providing data used approximately 51 percent of the kwh and accounted for 55 percent of the revenue derived by AP & L from this SIC.

Fabricated Metal Products (SIC 34)

This SIC had employment in Arkansas of 14,600 in 1983. Of that number, 77 percent, or 11,300, were within the service area of AP & L. Employment of the reporting group [7] was 2,102, or 300 per firm. The firms in the study represent approximately 19 percent of the employment within the AP & L area for this SIC.

The EEP/VS ratio reported for this industry [6] was 0.0213, an increase of 0.0106 since 1978. The average per kwh cost for the industry was $0.050 [8].

The combined group of SIC 34 firms responding to the questionnaire utilized 28,306 kwh per employee [7], or $1,468 per job [7]. Total purchases of electric energy by the industry were equal to 4.1 percent of the cost of materials and services [6]. The averages of the cost of electricity as a percent of total operating costs and operating costs as a percent of sales for the reporting firms were 3.2 percent and 86.0[19] percent, respectively [4].

Approximately 60 percent of the kwh used by this SIC is attributable to the establishments [8] in the study. This group's [8] expenditures on electric energy provided 58 percent of the revenue from the SIC.

---

[19] CV = 21.3.

Machinery, Except Electric (SIC 35)

In 1983, this industry had 8,200 workers in the AP & L service area. The total for this SIC in Arkansas was 13,800.

With an EEP/VS ratio of 0.0122 [4], this industry was one of the lowest found in the study and showed an increase of only 0.0059 since 1978. The industry utilized 17,333 kwh [4] per employee and spent $856 [4] on electric energy for each employee. The average cost per kwh was $0.0500 [5].

For the entire SIC, electric energy costs were 2.6 percent [4] of the cost of materials and services. As a mean of reporting firms, electric energy costs were 2.3 percent [4] of total operating costs. The reporting establishments had an average employment of 766 for a total of 1,019 employees [4]. This total was about 12 percent of the service area's employment in this SIC.

Five firms reported a total usage of 25 percent of the kwh and 22 percent of the revenues attributable to this SIC within the AP & L area.

Electric, Electronic Equipment (SIC 36)

This is the industry group with the second largest employment in both AP & L's service area and Arkansas. In the service area, 17,300 are employed in the manufacture of electric and electronic equipment, while in Arkansas the total number is 26,000. The five firms in the study had a total of 3,830 employees, or 766 per establishments. In other words, the reporting firms had 22 percent of the employment in this SIC within the geographic region served by AP & L.

The EEP/VS ratio of 0.0062 [5] for this industry was the next to lowest of any reported in the study. As compared to 1978, it was up

0.0011. The utilization of purchased electric energy by this industry averaged [6] 14,939 kwh, or $729 per employee. The average cost per kwh was $0.049 [6].

For the industry as a whole, electric energy costs were 0.74 percent of the cost of materials and services [5]. Calculated as an average of that reported by five firms, electricity costs as a percent of total operating costs were 1.2 percent and based on the responses of four firms, total operating costs were 91.3[20] percent of sales.

The firms reporting [6] utilized approximately 45 percent of the kwh attributable to this SIC within the service area. In so doing, they also supplied 45 percent of the revenue AP & L derived from this industry classification.

---

[20] CV = 11.4.

Table I

Summary of Industry Averages

	SIC 20		SIC 24		SIC 26		SIC 28		SIC 29		SIC 30	
	N	Amount	N	Amount	N	Amount	N	Amount	N	Amount	N	Amount
Electric Energy Purchased/Value of Shipments (EEP/VS)	11	0.0137	16	0.0350	6	0.0305	5	0.0340		D	5	0.0167
Electric Energy Purchased/ Employment	14	$1,319	16	$2,523	6	$5,273	5	$8,874	4	$10,170	5	$2,144
Kwh/Employment	13	27,222	13	53,717	6	128,124	4	232,991		D	5	47,577
Electric Energy Purchased/Cost of Materials and Services	12	0.0192	16	0.0541	5	0.0613	5	0.0602		D	5	0.0234
Cost per Kwh	14	$0.0483	13	$0.0505	6	$0.0412	4	$0.0374		D	6	$0.0441

Note: N indicates the number of establishments providing information.

D indicates a limitation on the ability to report in order to protect confidentiality.

These data are computed as the total for the number of firms shown divided by the number. Large firms could bias the results.

Table I (Cont.)

	SIC 33		SIC 34		SIC 35		SIC 36		SIC 37	
	N	Amount	N	Amount	N	Amount	N	Amount	N	Amount
Electric Energy Purchased/Value of Shipments (EEP/VS)	6	0.0200	6	0.0213	4	0.0122	5	0.0062		D
Electric Energy Purchased/ Employment	6	$2,512	7	$1,468	4	$856	5	$729	4	$764
Kwh/Employment	6	49,502	7	28,306	4	17,333	5	14,939		D
Electric Energy Purchased/Cost of Materials and Services	6	0.0258	6	0.0405	4	0.0264	5	0.0074		D
Cost per Kwh	7	$0.0505	8	$0.0504	5	$0.0500	6	$0.0488		D

Note: N indicates the number of establishments providing information.

D indicates a limitation on the ability to report in order to protect confidentiality.

These data are computed as the total for the number of firms shown divided by the number. Large firms could bias the results.

Table II

Summary of Firm Averages by Industry

	Electricity Purchased as a Percent of Total Operating Costs			Total Operating Costs as a Percent of Sales			Employment			
SIC	N	Mean	C.V.	N	Mean	C.V.	N	Sum	Mean	C.V.
20	12	4.39	111.8	10	81.7	36.0	12	8,201	683	167.9
24	15	6.04	106.2	14	86.5	11.0	15	3,457	230	128.8
26	6	3.70	98.9	5	92.8	7.5	6	3,108	518	107.6
28	5	4.20	31.8	4	87.6	7.0	5	1,510	302	61.0
29	4	6.66	60.1		D		4	643	161	74.6
30	5	2.40	16.4	5	94.0	2.9	5	1,319	264	51.5
33	6	3.10	79.6	6	97.7	5.9	6	1,799	300	66.4
34	4	3.15	80.0	4	86.0	21.3	4	1,200	300	58.8
35	4	2.27	65.8		D		4	1,019	225	32.1
36	5	1.24	60.5	4	91.3	11.4	5	3,830	766	86.0

Note: N indicates the number of establishments providing this information.

D indicates a limitation on the ability to report in order to protect confidentiality.

These data were computed as an arithmetic mean of the firms. The data for each firm are given equal weight.

Table III

Employment by Industry
December 1983
(thousands)

SIC Code	Description	AP & L Service Area	Arkansas	AP & L/ Arkansas
20	Food and Kindred Products	17.5	35.8	.49
22	Textile Mill Products	3.4	3.7	.92
23	Apparel, Oth. Textile Prods.	7.5	10.2	.74
24	Lumber and Wood Products	16.0	19.6	.82
25	Furniture and Fixtures	5.4	9.1	.59
26	Paper and Allied Products	9.6	12.3	.78
27	Printing and Publishing	7.3	9.7	.75
28	Chemicals, Allied Products	5.4	6.1	.89
29	Petroleum and Coal Products	1.3	1.4	.93
30	Rubber, Misc. Plastics Prod.	4.6	9.1	.51
31	Leather, Leather Products	5.7	6.7	.85
32	Stone, Clay, Glass Products	2.6	5.0	.52
33	Primary Metal Industries	5.0	7.2	.69
34	Fabricated Metal Products	11.3	14.6	.77
35	Machinery, Except Electric	8.2	13.8	.59
36	Electric, Electronic Equip	17.3	26.0	.67
37	Transportation Equipment	5.1	7.1	.72
38-39	Instruments, Related Goods and Miscellaneous	7.2	8.5	.85

Source: Arkansas Department of Labor, Employment Security Division

Table IV

Arkansas Power and Light Company
Sales of Energy by SIC Classification
Year Ending March, 1984

SIC Code	Description	KWH (1,000's)	Revenue	Revenue per KWH
20	Food and Kindred Products	446,348	$20,766,131	$0.0465
22	Textile Mill Products	98,511	4,143,898	0.0419
23	Apparel, Oth. Textile Prods.	33,663	2,111,350	0.0627
24	Lumber and Wood Products	412,408	21,564,793	0.0522
25	Furniture and Fixtures	9,502	650,795	0.0684
26	Paper and Allied Products	552,754	22,412,465	0.0405
27	Printing and Publishing	38,188	2,034,087	0.0532
28	Chemicals, Allied Products	529,397	21,176,876	0.0400
29	Petroleum and Coal Products	152,360	5,961,957	0.0391
30	Rubber, Misc. Plastics Prod.	127,237	5,744,698	0.0451
31	Leather, Leather Products	34,744	1,956,463	0.0563
32	Stone, Clay, Glass Products	66,034	3,687,060	0.0558
33	Primary Metal Industries	194,911	9,063,060	0.0558
34	Fabricated Metal Products	120,094	6,297,559	0.0524
35	Machinery, Except Electric	77,330	4,283,002	0.0553
36	Electric, Electronic Equip	143,294	6,933,286	0.0483
37	Transportation Equipment	53,350	2,956,168	0.0554
38	Instruments, Related Goods	15,595	760,641	0.0487
39	Miscellaneous	39,236	1,544,387	0.0396
	Total	3,144,956	$144,047,676	$0.0458

Source: Derived from AP & L internal records.

Electric Energy Usage in Manufacturing Locations in the AP & L Service Area as Compared to Other Locations

The data for 1978 (the most recent available from the Bureau of the Census) indicate that industries in Arkansas varied somewhat from the national averages with respect to the amount of electric energy purchased per employee, the significance of the total cost of electricity, its price, etc. Since it is obvious that most plants located in Arkansas compete on at least a regional basis, and some nationally or internationally, comparisons of the cost experience between the AP & L service area and other locations continues to be of interest.

Within Arkansas, the average cost of electric energy for AP & L's industrial customers was $0.0368 per kwh in 1982 and $0.0375 per kwh in 1983. These costs are $0.0003 and $0.0012 below the average for Arkansas in 1982 and 1983, respectively.

Data are also available on the average industrial rates of utilities that are members of the Edison Electric Institute (EEI) Rate Research Committee. In 1982, AP & L reported a mean industrial rate of $0.03701[21] per kwh. Of the 99 operating companies included in this study, only eleven had rates lower than that of AP & L. When the study was repeated in 1983, AP & L ranked tenth among 113 reporting operating systems, with a mean rate of $0.0377 per kwh. The Arkansas portion of AP & L, at $0.0375 per kwh, would have tied for the eighth position (with Gulf States Utilities Company) in 1983 had it been included in the EEI study.

---

[21] This number, as well as that for 1983, differ slightly from those reported in the previous paragraph. The averages used for comparisons in Arkansas reflect only the Arkansas portion of AP & L. When reporting to the EEI, the entire AP & L operating system is included.

The Tennessee Valley Authority (TVA) also collects data on industrial electric energy costs utilities in the southeastern U.S. The TVA cost estimates are based on theoretical levels of peak demand, load factors, etc., so that a given operating company's relative position may vary over the range of assumptions. However, in January 1984, the latest available study, the industrial rates estimated for AP & L were generally in the bottom one-fourth of the twenty-five utility companies included in the analysis.

As noted earlier, industrial rates are more inclusive than manufacturing firm rates. However, there is no reason to assume the relative position for AP & L with respect to rates for manufacturing firms would be substantially different than for the broader industrial grouping.

When the questionnaires for Arkansas establishments were distributed, the package of materials included three copies of a questionnaire designed to be distributed to locations outside the AP & L service area. Each recipient of the package of materials was asked to send this second questionnaire to other, similar plants owned by its parent company. Nine of these questionnaires were returned and eight of them could be matched with establishments included in the study.

The eight returned questionnaires in several instances show relatively small variations between sites in the AP & L service area and elsewhere. Except for two locations, one in the northwestern and one in the western U.S., the largest variation in per kwh cost is $0.008. In four of the eight cases, electric energy purchases as a percent of total operating costs are less for AP & L served establishments. The ratio of EEP/VS is generally higher in Arkansas but in only two instances is it more than $0.01 per dollar of value of shipments higher and, in those two instances, operating costs as a percent of sales are 85 percent or less. However, large differences between firms in the AP & L service area and elsewhere do exist for kwh per employee and dollars of electric energy expenditures per employee, as well as for operating costs as a percent of sales.

It should be noted that each of these comparisons represent only one establishment outside the AP & L service area compared to one establishment within the service area. The "outside" establishment may, or may not, be representative of each firm's operations. Thus, while these data are useful, they should be utilized within the context of the entire body of available data contained within the study.

Table V

Comparisons of Manufacturing Establishments

	AP&L Territory	Elsewhere
Company 1		
Cost per kwh.[1]	$0.045	$0.042
kwh/emp.[2]	142,336	175,540
EEP/emp.[3]	$6,350	$7,371
EEP/VS[4]	0.087	0.084
EEP/Op. Cost.[5]	11%	9.9%
Op. Cost/Sales[6]	90%	85.1%
Company 2		
Cost per kwh.	$0.047	$0.046
kwh/emp.	75,210	28,634
EEP/emp.	$3,549	$1,312
EEP/VS	0.036	0.023
EEP/Op. Cost.	4%	4%
Op. Cost/Sales	85%	55%
Company 3		
Cost per kwh.	$0.037	$0.035
kwh/emp.	239,110	589,598
EEP/emp.	$8,961	$20,799
EEP/VS	0.030	0.030
EEP/Op. Cost	3.2%	3.3%
Op. Cost/Sales	94.9%	93.5%
Company 4		
Cost per kwh.	$0.040	$0.032
kwh/emp.	96,161	93,890
EEP/emp.	$3,847	$3,061
EEP/VS	0.032	0.025
EEP/Op. Cost	3.2%	2.9%
Op. Cost/Sales	98.9%	82.8%
Company 5		
Cost per kwh.	$0.060	$0.064
kwh/emp.	17,937	9,357
EEP/emp.	$1,075	$597
EEP/VS	0.025	0.014
EEP/Op. Cost	2.9%	3.5%
Op. Cost/Sales	84.2%	62.2%

Table V (Cont.)

	AP&L Territory	Elsewhere
Company 6		
Cost per kwh.	$0.050	$0.063
kwh/emp.	15,231	9,138
EEP/emp.	$767	$574
EEP/VS	0.013	0.007
EEP/Op. Cost	1.3%	0.8%
Op. Cost/Sales	97.6%	88.4%
Company 7		
Cost per kwh.	$0.046	$0.015
kwh/emp.	122,863	356,882
EEP/emp.	$5,617	$5,178
EEP/VS	0.020	0.021
EEP/Op. Cost	2.2%	2.6%
Op. Cost/Sales	93.4%	81.7%
Company 8		
Cost per kwh.	$0.0390	$0.0653
kwh/emp.	68,711	52,236
EEP/emp.	$2,677	$3,410
EEP/VS	0.016	0.021
EEP/Op. Cost	1.5%	2.0
Op. Cost/Sales	95.7%	104%

---

[1] Dollar expenditures on electric energy (EEP) divided by the number of kwh.

[2] The number of kwh divided by number of employees.

[3] Electric energy purchased (EEP) divided by number of employees.

[4] Electric energy purchased (EEP) divided by value of shipments (VS).

[5] The percent of total operating costs represented by electric energy purchases.

[6] Total operating expenses stated as a percent of sales.

Industry Prepared Comparisons of Electric Energy Costs

As a part of the study, recipients of the questionnaire were asked if their company had made a study comparing electric energy costs in various states. Twelve companies answered in the affirmative and supplied names and addresses for contact purposes. Ultimately six of the companies provided copies of their in-house studies. To protect confidentiality, the source of the data is confined to the SIC group number and locations are specified only as location A, B, C, etc., with the location in Arkansas Power and Light Company's service area noted. It is difficult to generalize from these data because of the diversity of SIC classifications and base time periods. However, they would appear to indicate that AP & L rates (cost per kwh) are average or below.

SIC 20[1]

Location	Cost per KWH
A	$0.0444
B	0.0488
C	0.0548
D[2]	0.0506
E	0.0510

[1] Date of Information - current (1984).

[2] "D" is an Arkansas location but cost shown is not exclusively for AP & L supplied energy.

SIC 24[1]

Location	Cost per KWH
A[2]	$0.054 to $0.076
B	0.038
C	0.064
D[3]	0.021 to 0.031

[1] Date of Information - current (1984).

[2] AP & L service area.

[3] Hydroelectric power.

SIC 26[1]

Location	Cost per KWH
A[2]	$0.044
B	0.041 to 0.046
C[3]	0.021
D	0.048

[1] Date of Information - current (1984).

[2] AP & L service area.

[3] Hydroelectric power.

SIC 33[1]

Location	Cost per KWH
A	$ .087
B	.187
C	.054
D	.081
E	.078
F[2]	.051
G	.068
H	.074
I	.086
J	.046
K	.057
L	.045
M	.046
N	.051
O	.050
P	.073
Q	.083

---

[1] Date of Information - Unknown but referenced by sender as current.

[2] AP & L Service Area.

SIC 33

Service Month To	Kwh Usage	Location			
		A[1]	B[2]	C[2]	D[2]
11/02/81	4,358,000	$179,865.02	181,892.07	208,621.40	226,353.69
10/01/81	5,745,600	334,437.62	167,258.55	196,050.80	197,933.06
09/01/81	6,451,200	366,280.64	181,704.00	210,515.60	217,926.75
07/01/81	5,871,600	288,969.30	158,636.38	198,633.80	200,866.87
07/31/81	5,334,000	304,663.57	155,162.00	187,613.00	184,842.39
06/01/81	5,972,400	183,907.96	160,847.83	200,700.00	203,906.68
05/01/81	5,838,000	185,621.96	157,899.23	197,945.00	200,130.81
04/02/81	5,619,600	188,692.82	152,509.67	193,467.80	193,382.19
03/02/81	5,821,200	195,915.56	167.333.49	197.600.60	199,431.05
02/02/81	6,199,200	207,612.65	176,299.65	205,349.60	210,574.24
01/02/81	5,745,600	184,681.00	165,540.26	196,050.80	195,563.91
12/01/80	5,682,600	205,517.58	164,031.43	194,759.30	196,090.31

---

[1] AP & L Actually Billed

[2] These data are estimated based on the specified kwh usage.

SIC 35[1]

Location	Cost per KWH
A	$0.0285
B	0.0312
C	0.0362
D	0.0274
E[2]	0.0288
F	0.0337
G	0.0317
H	0.0329
I	0.0310
J	0.0279
K	0.0378
L	0.0326
M	0.0347
N	0.0352

[1] Date of Information - 1980.

[2] AP & L Service Area.

SIC - Various[1]

Location	Cost per KWH
A	$0.043038
B	0.047078
C	0.054821
D	0.047638
E[2]	0.045920
F	0.050719
G	0.056247
H	0.051269
I	0.072801
J	0.090322

[1] Date of Information - Current (1983-1984).

[2] AP & L Service Area.

Current Economic Conditions Among, and Outlook for, Arkansas Manufacturing Establishments

Of those establishments responding to this portion of the questionnaire, almost 85 percent operated at production levels of 61 percent or more of capacity in 1983. Almost 48 percent of the respondents were producing at 81 percent or more of capacity in that year.

With respect to current year (1984) operations, 66 percent were at normal operating levels and over 63 percent of those expected a continuation of this condition in the near term. Almost 24 percent of the group, however, expected an upturn. About 23 percent of the responding establishments were operating at below normal levels in 1984, but one-half of that group expected an upturn in the near term. Of the eleven percent operating at above normal levels, sixty percent expected a continuation of current conditions and twenty percent expected an upturn. Overall, only seven responding establishments expected a near-term decline from current operating levels.

With respect to long-term outlook (1985-1990), approximately 42 percent of the establishments expected expansion and 39 percent a continuation of current levels of production. Over twelve percent, however, expected cutbacks at their facility.

When asked if their company should decide to expand its capacity, whether that expansion is likely to be in Arkansas, over two thirds (68.6 percent) of the respondents said yes. Of that group, over 83 percent believe expansion would be in the form of an increased investment at the responding establishment.

A tabulation of responses to Section IV of the questionnaire is contained in Appendix C.

Comments Concerning Arkansas as a Manufacturing Location

As a part of the research project, firms were asked to comment on 1) what factors determined their belief that any expansion in capacity would or would not take place in Arkansas; 2) the three most positive aspects (if any) of their plant's location in Arkansas; and 3) the three most negative aspects (if any) of their plant's location in Arkansas. (For the specific form of the questions, please refer to questions 5, 7 and 8 of Section IV of the questionnaire.)

The responses frequently included multiple comments and, as should be expected, the comments of some firms are in direct opposition to those of others. However, at least some patterns, based upon frequency of the comments, do emerge. In the following sections, the respondents' comments are grouped and then summarized.

Factors Determining Future Location Decisions

Labor. The supply of available labor or some factor related to the workforce was mentioned positively twenty-two times. While the labor supply accounted for twelve comments (from seven SIC groups), other positive comments included wage rates, worker attitude, right-to-work law, expertise (skills), quality of labor, and favorable labor/management relations. Negatively, some aspect of the workforce was listed four times. Those things seen as negative location determinants were increasing labor costs, the presence of unions, and people skills.

Raw Materials. Exclusive of energy, raw materials were mentioned seventeen times. The availability of raw materials was mentioned positively in twelve responses, primarily in SIC 20 and 24. Negatively, insufficient raw materials, either timber or oil, were denoted four times and lack of water was listed by one establishment.

Energy. Either energy or utilities were mentioned fifteen times, twelve of which were negative. The instability and/or uncertainty of costs were noted, as well as the level, as considerations that would prohibit expansion occurring in Arkansas. On the positive side, energy cost was mentioned twice and energy availability was mentioned once.

Geography. Factors related to the market area and transportation were listed in twenty-eight instances, with eighteen of those being favorable to an Arkansas location. Comments concerning geography in a positive vein included area served, local business, Sunbelt location, proximity to related inter-company activities, and access to corporate management. Negative considerations mentioned were distribution channels, freight and distribution costs, better service to the market from another location, proximity of major customers, and distance from home office.

Present Facility. The condition, or fact of existence, of the facility surveyed was listed as a consideration in twenty-one instances, all but one being positive. For the most part, the positive answers could be summarized as "the present facility is here."

Other Factors. A mixture of other comments was provided on the returned questionnaires. Among them were positive factors concerning legislative climate, environmental agency attitude, financial incentives, the attitude of state government and local citizens toward industry, an attractive tax climate, and cost of operations. Negatively, the following factors were among those listed: high production costs, corporate tax rates, educational facilities, tax burden, and economic conditions in Arkansas.

Summary. Based on the frequency of comments, the strongest favorable factors for industrial expansion center upon Arkansas' central location, both the quantity and work ethic of its labor force, the availability of timber, and the fact that facilities presently exist here and are viewed as expandable. Generally viewed as negative determinates were: dwindling or inadequate timber and oil resources; increasing labor and production costs; and high, uncertain, and unstable energy (or utility) costs.

Overall, the positive comments outnumbered the negative ones by about 2 to 1.

Positive Aspects of Arkansas Locations

Labor. This factor was listed, in one form or other, by all responding SIC groups for a total of seventy-nine times. The availability of labor accounted for about one-half of the list. This was followed by labor costs (wages), the work ethic, and the right-to-work law. Also mentioned (either once or twice in each instance) were labor relations, quality of labor, lack of turnover, and little union activity.

Raw Materials. The availability of timber was mentioned by sixteen establishments in SIC groups 24 and 26. In addition, the availability of raw materials, or natural resources in general, was stated was stated instances. Specific mention was also made of water supply (twice), oil and gas (twice), and land.

Energy. Competitive utilities and the availability of utilities were mentioned by three firms. Four other firms cited low energy costs as an advantage of an Arkansas location.

Geography. In one manner or other, thirty-seven responses indicated location (geography) as an advantage. Twenty-one responses across most SIC groups pointed to Arkansas as a central location. Another eleven denoted location, Sunbelt product distribution, market, proximity to customers, or some similar descriptor.

Transportation. Nearness to a freight centroid was listed by three firms, while seven others mentioned transportation in general. Two respondents, in SIC 20, commented on highway access, another in that SIC listed low freight rates as a result of river transportation, and one other mentioned location relative to the rail industry. One respondent (SIC 24) listed the availability of port facilities.

Weather. Several (eleven) respondents, from seven SIC's, listed Arkansas weather as an advantage.

Operating Costs. Competitive costs, construction costs, operating costs, occupancy costs, and favorable overhead were each mentioned as an advantage by a responding establishment.

Taxes. This factor was mentioned in several differing forms. Answers of eleven respondents could be catergorized as "low taxes." Property taxes and a good tax structure were each listed by a respondent.

Other. The remaining responses centered upon state government and local leadership. At the state level, regulatory climate, environmental attitude, cooperation, and the Arkansas Industrial Development Commission were cited. As local factors, good schools was mentioned once, community leadership was listed six times; while industrial climate was mentioned twice and industrial financing was mentioned three times. The state's environment and quality of life were noted in a total of seven responses.

Summary. The most frequently mentioned advantages were: 1) availability of labor; 2) the work ethic; 3) proximity to markets (central location); and 4) availability of resources. Low taxes, weather, environment, and quality of life were also listed by several respondents.

Negative Aspects of Arkansas Locations

More so than the list of advantages, there was a substantial diversity among the items listed as a disadvantage to an Arkansas location. Thus, it is somewhat more difficult to generalize, or group, the disadvantages.

Labor. The lack of skilled or educated labor was listed by twenty-four respondents. In addition, two responses mentioned a lack of available management personnel, with one of them specifically stating difficulty in "recruiting management personnel." Single responses included the quantity of labor, militant labor, union activity, and wage rates. Three firms noted the State's Workmen Compensation law, and two said labor cost increases were a disadvantage. One respondent simply listed "the labor market."

Raw Materials. Nine respondents mentioned raw materials. Of that number, two specified timber and two others referred to the supply of crude oil.

Energy. This was the most frequently mentioned factor in that statements concerning energy or utilities appeared forty-three times. Almost two-thirds of the statements were related to the cost of energy. The uncertainty of future costs was listed eight times, whereas the rising cost was mentioned seven times. The respondents mentioning this factor were from virtually all SIC groups.

Geography. The distance from customers, vendors, or repair facilities was noted in the responses in a total of eight instances.

Transportation. Inadequate or inferior transportation, in general terms, was listed six times. In addition, highways were mentioned by four respondents; air transportation by four; and rail service (or rates) by five. Increased costs, poor routes, and traveler logistics also appeared as disadvantages.

Taxes. Increasing state and local taxes and truck weight taxes were each mentioned by a firm. Two others listed high taxes and another noted there was no tax incentive to expand.

Government. Some aspect of either local or state government, excluding education, was mentioned sixteen times, with about one-third of the responses referring to local governments. Among the sixteen, highway regulations were noted three times, environmental controls (or costs) five times and the unavailability or uncertainty of financing, twice.

Education. The quality or lack of vocational-technical education facilities (programs) were listed as a disadvantage by four firms. A greater number of responses noted inadequate education facilities or programs (a total of eight).

Other. The remainder of the items listed included 1) poor access to cultural events/entertainment; 2) lack of technical support, 3) ACORN; 4) high chemical costs; 5) number of competitors; 6) weather; 7) health care costs; 8) lack of some services or commodities; 9) lack of international banking facilities; etc. Each of these was mentioned once, except that item (8) was listed twice.

Summary. Energy (or utilities) was the most frequently mentioned disadvantage from the standpoint of the continued increasing level and uncertainty of costs. This factor was noted both from the standpoint of level and uncertainty of cost. The lack of skilled labor or some aspect of the workforce was mentioned almost as frequently as energy. This was followed by transportation difficulties, government (state and local) and education (technical and general).

Summary

The quantity of the labor, along with the prevailing work ethic, is probably the most noteworthy of Arkansas' industrial location advantages. This is tempered, somewhat, by the lack of skilled (technical) employees and what is perceived as inadequate vocational-technical training facilities.

Raw materials, weather, and the environment are also considered to be advantages but while SIC's 20 and 24 view raw materials positively, the supply is seen as dwindling among the firms in some sectors.

Electric energy cost, as well as that of some other utilities, is viewed as a negative factor among a large proportion of the establishments. However, comments would seem to indicate that cost increases and uncertainty are of almost equal significance to the actual level of costs. Some firms do view electric energy costs, and availability, as an advantage of an Arkansas location.

The central location of Arkansas, or its proximity to markets, is a frequently mentioned advantage. The absence of adequate transportation (rail, air and, in some instances, highway) reduces this advantage, however. Similarly, an Arkansas location can be viewed as a disadvantage with respect to maintenance, customers, etc.

Government in Arkansas, both local and State, is neither clearly an advantage nor a disadvantage. This is inclusive of regulations and taxes.

APPENDIX A

Historical Data: A Synopsis of 1974 and 1978

The following sections consider each industry (2-digit SIC group) in descending order with reference to the ratio of electric energy purchased to value of shipments (EEP/VS) in 1978.

Primary Metal Industries (SIC 33)

The EEP/VS ratio in Arkansas was 0.0734 as compared to 0.0286 for the U.S. The value added margin in Arkansas was 32 percent and for the U.S. it was 38 percent. Overall, this sector purchased $6,545 in electric energy for each of its jobs in Arkansas and, in so doing, accounted for 26.6 percent of the electric energy purchased in the state, 3.7 percent of the employment, and 4.5 percent of the payroll.

The kwh purchased per employee in Arkansas was 377,442, while the average in the U.S. for this SIC was 144,871. The cost per kwh was $0.0173, or 14 percent less than the national industry average of $0.0202.

In this particular sector, it is obvious that the production processes used by some firms in Arkansas in 1978 were much more heavily dependent upon electric energy than was the norm nationally. Moreover, plants in Arkansas would appear to have had lower value added margins, 32 percent as compared to 38 percent, than the national average for plants in this classification. In aggregate tems, the segment of industry in Arkansas would appear to have been operating at a disadvantage.

Paper and Allied Products (SIC 26)

The second highest EEP/VS ratio was 0.0210, or only 28.5 percent of that for SIC 33. The national average for the ratio was 0.0184. The value added margins were 39.5 percent and 42.9 percent for

Arkansas and the U.S., respectively. In this sector in Arkansas, $2,352 in electric energy was purchased for each job. This classification accounted for 13.4 percent of the electric energy purchased, provided 5.2 percent of the manufacturing jobs and 8.1 percent of the payroll.

The average cost per kwh was $0.0246 in Arkansas and $0.0230 nationally. The national average amount of electric energy purchased for this sector was 71,424 kwh per employee and in Arkansas, 95,454 per employee.

This classification was more dependent upon purchased electric energy in Arkansas than was true nationally. Average cost per kwh was higher in Arkansas and the value added for plants in the state was only 92 percent of the mean for the industry nationally. Similar to SIC 26, it appears to have been operating at a disadvantage, but not to as great an extent.

Stone, Clay and Glass Products (SIC 32)

Just slightly less than SIC 26, this sector had a EEP/VS ratio of 0.0207, with a national ratio of 0.0217. (About one cent less per dollar value of shipments goes to electricity than the average nationally.) The value added margin for Arkansas was 53.4 percent and for the U.S., 54.1 percent. With respect to purchased electric energy per employee, it was $1,490 in Arkansas. This sector made 3.9 percent of the electric energy purchases, provided 2.4 percent of the employment and 2.6 percent of the payroll for Arkansas manufacturing establishments.

In Arkansas, this sector used more kwh per employee (56,184) than was used nationally (51,235). The average cost per kwh was $0.0265 in Arkansas and $0.0276 for the U.S.

Like the two previously discussed SIC groups, this sector appears to be more electric energy intensive in Arkansas than nationally. However, the lower average kwh cost in Arkansas effects this difference and that, along with other factors, indicates that in Arkansas slightly less of the total value of shipment dollars goes to purchase electric energy than is typical for the industry nationally.

Chemicals, Allied Products (SIC 28)

The spread for this sector (between Arkansas and the U.S. EEP/VS ratios) was 0.0174 to 0.0242. Both Arkansas, with 46.7 percent, and the U.S., with 47.5 percent, had similar value added margins.

Firms in this sector paid an average of $0.0271 per kwh for 80,062 kwh per employee, or a total of $2,169 per employee, for purchased electric energy. The average rate per kwh nationally was $0.0216 for 161,112 kwh per employee, with a total per employee of $3,479.

This SIC accounted for 7.4 percent of the electric energy purchased, 3.2 percent of the employment, and 5.1 percent of the payroll in Arkansas.

Apparently, nationally the plants in this sector are much more dependent upon purchased electric energy than are those in Arkansas. Thus, even though cost per kwh is somewhat higher in Arkansas, purchased electric energy was less per dollar of value of shipments than it was nationally. The value added margin in Arkansas was less than the national average for the industry, but not in proportion to the difference in EEP/VS ratios.

Rubber, Miscellaneous Plastic Products (SIC 30)

Continuing in descending order, EEP/VS ratio of $0.0163 in Arkansas, similar to the $0.0161 figure nationally. The Arkansas value added margin was somewhat more, at 53.2%, than the national average margin of 49.0%.

The average kwh cost was $0.0259 in Arkansas for 35,553 kwh per employee, giving total purchases of electric energy per employee of $922. For the U.S., the average kwh cost was $0.0302 for 30,709 kwh per employee, and a total cost per employee of $927.

This SIC accounted for 2.9 percent of the electric energy purchased, 3.3 percent of the employees, and 3.7 percent of the payrolls in Arkansas.

Differences in kwh costs offset what appeared to be a greater utilization of purchased electric energy in Arkansas. Moreover, the relatively greater amount of value added by Arkansas industries more than offsets the higher EEP/VS ratio.

Lumber and Wood Products (SIC 24)

At 0.0614, the EEP/VS ratio for this Arkansas industry was substantially higher, in relative terms, than the U.S. figure of 0.00932. However, the value added margin in Arkansas (41.9 percent) was higher than the national margin (40.8 percent).

Overall, the industry in Arkansas spent $970 per employee on purchased electric energy; and nationally the figure was $829. Both the cost per kwh ($0.0299) and the kwh per employee (32,507) in Arkansas were higher than the U.S. figures of $0.0260 and 23,048, respectively.

This sector accounted for 10.4 percent of electric energy purchased, 9.9 percent of the manufacturing jobs and 9.1 percent of the payroll.

This was (and is) one of the more significant industries, relative to payroll and employment, in Arkansas. While the costs of electric energy purchased were somewhat higher than national averages, either lower costs elsewhere or higher unit values would appear to have provided the industry with a value added margin slightly better than the U.S. average. This mediated, slightly, the higher electric energy cost factor.

Textile Mill Products (SIC 22)

The EEP/VS ratio was 0.0126 in Arkansas and 0.0169 nationally. However, the value added margin was only 37.6 percent in Arkansas, as compared to 40.5 percent for the U.S.

The cost per kwh in Arkansas and the U.S. was nearly identical at $0.0267 and $0.0265, respectively. Similarly, the kwh per employee usages were 31,214 for Arkansas and 31,217 for the nation. As a result the electric energy purchased per employee were nearly the same in Arkansas ($833) and the U.S. ($827).

This sector was responsible for only 1.8 percent of the electric energy purchased, provided 2.0 percent of manufacturing employees, and 2.0 percent of the payrolls of manufacturing establishments.

Electric energy costs in Arkansas would appear to have been reasonably equal to the national experience. Thus, other factors appear to have been responsible for a lower value added ratio for Arkansas plants.

Fabricated Metal Products (SIC 34)

This sector had a EEP/VS ratio of 0.0107 in Arkansas, as contrasted to a U.S. figure of 0.0084. The value added margin was approximately equal in Arkansas and the nation with 50.8 percent and 50.2 percent, respectively.

The price per kwh in the industry was $0.0297 in Arkansas, with per employee usage at 18,407 kwh and purchases of electric energy of $547 per employee. Nationally, the figures for the same items were $0.0325 per kwh, 16,226 kwh per employee, and $527 per employee.

SIC 34's electric energy purchases were 4.3 percent of the total for manufacturing. This industry classification had 7.3 percent of the employment and payrolls in manufacturing in Arkansas.

With the cost of electric energy and the amounts purchased roughly offsetting, the higher EEP/VS ratio in Arkansas may have reflected a lower value of products shipped than is average for the industry. Whatever the cause, the higher value added ratio was not sufficient to offset the difference in EEP/VS between Arkansas and the U.S.

Furniture and Fixtures (SIC 25)

In descending order, this is the first of the industry classifications to fall below an EEP/VS ratio of 0.01, with a value of 0.0091 in 1978. The U.S. figure, however, was even lower at 0.0077. The value added margin was 50.3 percent in Arkansas and 51.8 percent nationally.

The amount of kwh used per employee in Arkansas was 10,795 and in the U.S., 8,846. In Arkansas the per kwh cost was $0.0292 and the total electric energy purchased per employee was $316. The comparable U.S. data were $0.0352 per kwh and $312 per employee.

This manufacturing sector used only 1.9 percent of the electric energy purchased but provided 5.7 percent of the manufacturing employment and 4.8 percent of the payrolls.

As compared to other industries, SIC 25 was less electric energy intensive. It did utilize more electric energy than the U.S. average. However, other factors would seem to have been the cause of its higher than national average EEP/VS ratio. The combination of a higher EEP/VS ratio and lower porportion of value added would, unless offset by other factors, indicate a competitive disadvantage for this Arkansas manufacturing sector.

Apparel, Other Textile Products (SIC 23)

At 0.0086, the EEP/VS ratio in Arkansas was substantially higher than the national figure of 0.0058. However, in absolute terms, the magnitude of the difference was small. The value added margin was 60.8 percent in Arkansas and 49.8 percent for the U.S.

Overall, the industry spent $194 for 6,035 kwh per employee in Arkansas and $189 for 5,102 kwh per employee as a national average. The cost per kwh purchased was $0.0322 and $0.0370 in Arkansas and the U.S., respectively.

This manufacturing sector was not a major electric energy user, with only 1.5 percent of the total amount purchased by manufacturers. It did provide, however, 7.0% of the employment and 4.2% of the payroll in Arkansas manufacturing categories.

Electric energy purchased per employee was somewhat higher in Arkansas but this was because the quantity utilized per employee was higher. The higher value added margin for Arkansas offsets, to some extent, the high EEP/VS ratio.

Printing and Publishing (SIC 27)

The EEP/VS ratio for the state was 0.0073, and for the U.S. it was 0.0064. Nationally, the valued added margin was 63.9 percent, and in Arkansas it was 68.7 percent.

The cost per kwh was $0.031 in Arkansas and $0.035 for the U.S. average. This sector in Arkansas purchased 10,012 kwh, or $312, per employee. Nationally, the figures were 9,037 kwh and $313.

SIC 27 used 1.3 percent of the electric energy purchased, and had 3.9 percent of the employment and payroll among Arkansas manufacturers.

Like SIC 23, electric energy costs were not a large proportion of value of shipments in SIC 27 and the relatively higher costs for Arkansas are partially offset by the greater value added margin.

Petroleum and Coal Products (SIC 29)

The EEP/VS ratio in Arkansas and the U.S. were quite similar (approximately 0.0072). The average value added margin for the U.S. (15.7 percent) was somewhat lower than the Arkansas figure (16.9 percent).

At $0.026 per kwh in Arkansas, the price of electric energy was greater than that for the national industry ($0.025). In Arkansas, electric energy purchased was $1.545, or 60,318 kwh, per employee and for the U.S., it was $5,015, or 204,198 kwh, per employee.

This sector accounted for only 1.8 percent of the electric energy purchased, 1.1 percent of the jobs, and 1.3 percent of the payroll among Arkansas' manufacturing firms.

Arkansas firms in this classification appear to have been less energy intensive than the national average but value added in Arkansas was higher.

Leather, Leather Products (SIC 31)

In absolute terms, the EEP/VS ratio for Arkansas (0.0067) was similar to, but slightly higher than, the nation (0.0060). However, the value added margin for Arkansas firms was 56.1 percent, while the national average was 48.8 percent.

Arkansas establishments had an average kwh cost of $0.035 for 5,208 kwh per employee. The U.S. averages were $0.035 per kwh and 5,694 kwh per employee. Total purchases of electric energy were $181 and $202 per employee in the state and nation, respectively.

This classification was responsible for purchasing electrical energy equal to 0.7 percent of the manufacturing total. It provided 3.5 percent of the total jobs and 2.4 percent of the total payroll in manufacturing.

Per job, this was the least electric energy intensive of Arkansas' manufacturing categories. Even though electric energy as a percent of value of shipments was higher than the national average, value added, in relative terms, was even higher.

Food and Kindred Products (SIC 20)

At 0.0065, the EEP/VS ratio for this Arkansas industry was higher than the 0.0056 U.S. ratio. The value added ratio of 21.0 percent for Arkansas establishments was less than the 29.1 percent average for the U.S.

Average cost per kwh in Arkansas was $0.027 and for the U.S., $0.030. In Arkansas, this sector used 28,966 kwh per employee, for a cost of $793. Nationally, the figures were 26,198, with a cost per employee of $785.

This industry accounted for 11.1 percent of the electric energy purchased, 12.9 percent of the employment, and 11.6 percent of the payroll in manufacturing.

This industry appeared to be somewhat more electric energy intensive in Arkansas than nationally. While per kwh costs were lower, the value added margin for Arkansas firms was also lower than the national average.

Machinery, Except Electric (SIC 35)

At 0.0063, the EEP/VS ratio for this sector was slightly lower than the national figure of 0.0067. However the value added margin for Arkansas was also lower (50.4 percent) than that of the U.S. (55.1 percent).

This industry group had a kwh cost of $0.028 and with 12,924 kwh purchased per employee, the total expenditures per employee were $359.

For the U.S., the figures were $0.032 per kwh, 13,463 kwh, and $429, respectively.

Using 2.5 percent of the electric energy purchased, this Arkansas industry provided 6.4 percent of the jobs and 7.0 percent of the payrolls in manufacturing.

This was one of the least electric energy intensive of Arkansas' manufacturing sectors, and also was less than the average for its industry nationally. The lower percent of value of shipments for electric energy costs was, however, offset by a similarly lower value added ratio.

Electric, Electronic Equipment (SIC 36)

The EEP/VS ratio in Arkansas was 0.0056, as compared to 0.0078 for the U.S. The value added margin in Arkansas was 44.8 percent and for the U.S., it was 56.9 percent. Overall, this sector purchased $339 in electric energy for each job in Arkansas and, in so doing, accounted for 4.3 percent of the electric energy purchased by manufacturers in the state, 11.7 percent of the employment, and 11.9 percent of the payroll.

The kwh purchased per employee in Arkansas was 14,343, while the average in the U.S. for this SIC was 13,985. The cost per kwh was $0.0236, or 22 percent less than the national industry average of $0.0301.

Although the firms in this sector appear to have been more electric energy dependent than was true nationally, their costs per employee and EEP/VS ratio were both less. However, this was partially negated by a lower proportion of value added.

Transportation Equipment (SIC 37)

This sector had the next to lowest EEP/VS ratio in Arkansas (0.0039) and nationally (0.0051). The value added margin in Arkansas was slightly below (37.9 percent) that for the U.S. (38.7 percent).

In Arkansas, the per kwh cost was $0.029 for 8,780 kwh per employee. The purchased electric energy cost per employee in the state was $254. For the U.S., the average per kwh cost was $0.030, the kwh per employee was 17,029, and the cost was $518.

This SIC group was one of the smallest in Arkansas, utilizing only 0.8 percent of the purchased electric energy and providing 2.9 percent of the jobs and 2.6 percent of the payroll in the manufacturing sector.

This sector appeared to be less electric energy intensive in Arkansas than was generally the average nationally.

Instruments, Related Goods (SIC 38)

The EEP/VS ratio (0.0028) for this industry was the lowest of all manufacturing categories in Arkansas. The U.S. ratio (0.0055) was almost double the state figure. The value added margin for Arkansas was 46.5 percent and for the U.S., 38.6 percent.

The cost per kwh in Arkansas was $0.028 and the industry purchased 7,060 kwh per employee. The expenditure per employee was $200. For the U.S., the cost per kwh was $0.033, with 9,445 kwh per job and purchase of electric energy per employee of $309.

This sector accounted for 0.5 percent of the electric energy purchased, provided 2.4 percent of the employment, and had 2.0 percent of the payroll by manufacturing establishments in Arkansas.

Miscellaneous (SIC 39)

Because of its mixed character and small size in Arkansas, this category has been omitted.

Table VI

Electric Energy Purchased per Dollar of Value of Shipments
Arkansas (1974 and 1978) and United States (1978)

SIC		1974	1978	
Code	Description	Arkansas	Arkansas	U.S.
20	Food and Kindred Products	$0.0043	$0.0065	$0.0056
201	Meat Products	0.0048	0.0065	------
203	Preserved Fruits and Vegetables	0.0044	0.0063	------
204	Grain Mill Products	0.0026	0.0061	------
22	Textile Mill Products	0.0121	0.0126	0.0169
23	Apparel, Oth. Textile Prods.	0.0043	0.0086	0.0058
232	Men's and Boy's Furnishings	0.0045	0.0106	------
233	Women's and Misses' Outerwear	0.0055	0.0066	------
24	Lumber and Wood Products	0.0126	0.0161	0.0093
242	Sawmills and Planning Mills	0.0192	0.0231	------
243	Millwork. Plywood, Stuc. Membs.	0.0173	0.0139	------
249	Miscellaneous Wood Products	0.0143	0.0189	------
25	Furniture and Fixtures	0.0073	0.0091	0.0077
26	Paper and Allied Products	0.0135	0.0210	0.0184
27	Printing and Publishing	0.0054	0.0073	0.0064
28	Chemicals, Allied Products	0.0136	0.0174	0.0242
29	Petroleum and Coal Products	0.0076	0.0072	0.0072
30	Rubber, Misc. Plastics Prod.	0.0094	0.0163	0.0161
31	Leather, Leather Products	0.0046	0.0067	0.0060
32	Stone, Clay, Glass Products	0.0159	0.0207	0.0217
33	Primary Metal Industries	0.0681	0.0734	0.0286
34	Fabricated Metal Products	0.0067	0.0107	0.0084
344	Fabricated Struc. Metal Prods.	0.0050	0.0073	------
349	Mis. Fabricated Metal Products	0.0070	0.0139	------
35	Machinery, Except Electric	0.0056	0.0063	0.0067
36	Electric, Electronic Equip	0.0042	0.0056	0.0078
37	Transportation Equipment	0.0062	0.0039	0.0051
371	Motor Vehicles and Equipment	0.0047	0.0034	------
38	Instruments, Related Goods		0.0028	0.0055

Source: 1974 Annual Survey of Manufactures and 1978 Annual Survey of Manufactures, U.S. Department of Commerce, Bureau of the Census.

Table VII

Electric Energy Purchased per Dollar of Value Added by Manufacture Arkansas (1974 and 1978) and United States (1978)

SIC		1974	1978	
Code	Description	Arkansas	Arkansas	U.S.
20	Food and Kindred Products	$0.0253	$0.0311	$0.0193
201	Meat Products	0.0265	0.0355	------
203	Preserved Fruits and Vegetables	0.0132	0.0162	------
204	Grain Mill Products	0.0319	0.0450	------
22	Textile Mill Products	0.0289	0.0336	0.0416
23	Apparel, Oth. Textile Prods.	0.0071	0.0141	0.0117
232	Men's and Boy's Furnishings	0.0072	0.0159	------
233	Women's and Misses' Outerwear	0.0094	0.0111	------
24	Lumber and Wood Products	0.0256	0.0385	0.0229
242	Sawmills and Planning Mills	0.0420	0.0492	------
243	Millwork, Plywood, Stuc. Membs.	0.0547	0.0351	------
249	Miscellaneous Wood Products	0.0064	0.0494	------
25	Furniture and Fixtures	0.0148	0.0182	0.0148
26	Paper and Allied Products	0.0298	0.0531	0.0429
27	Printing and Publishing	0.0071	0.0106	0.0100
28	Chemicals, Allied Products	0.0263	0.0372	0.0511
29	Petroleum and Coal Products	0.0215	0.0427	0.0456
30	Rubber, Misc. Plastics Prod.	0.0168	0.0306	0.0328
31	Leather, Leather Products	0.0087	0.0119	0.0123
32	Stone, Clay, Glass Products	0.0258	0.0388	0.0401
33	Primary Metal Industries	0.2041	0.2278	0.0762
34	Fabricated Metal Products	0.0134	0.0212	0.0168
344	Fabricated Struc. Metal Prods.	0.0123	0.0159	------
349	Mis. Fabricated Metal Products	0.0132	0.0283	------
35	Machinery, Except Electric	0.0104	0.0125	0.0122
36	Electric, Electronic Equip	0.0096	0.0126	0.0137
37	Transportation Equipment	0.0163	0.0102	0.0132
371	Motor Vehicles and Equipment	0.0093	0.0086	------
38	Instruments, Related Goods	--	0.0059	0.0085

Source: 1974 Annual Survey of Manufactures and 1978 Annual Survey of Manufactures, U.S. Department of Commerce, Bureau of the Census.

Table VIII

Electric Energy Purchased per Employee
Arkansas (1974 and 1978) and United States (1978)

SIC Code	Description	1974 Arkansas	1978 Arkansas	1978 U.S.
20	Food and Kindred Products	$ 433.73	$793.23	$785.36
201	Meat Products	293.58	517.24	------
203	Preserved Fruits and Vegetables	263.16	540.00	------
204	Grain Mill Products	730.77	1,714.29	------
22	Textile Mill Products	477.27	833.33	826.67
23	Apparel, Oth. Textile Prods.	70.06	194.44	188.61
232	Men's and Boy's Furnishings	65.42	228.92	------
233	Women's and Misses' Outerwear	97.56	116.67	------
24	Lumber and Wood Products	440.76	970.44	599.42
242	Sawmills and Planning Mills	500.00	1,310.00	------
243	Millwork, Plywood, Stuc. Membs.	724.14	1,129.03	------
249	Miscellaneous Wood Products	516.13	909.09	------
25	Furniture and Fixtures	175.00	316.24	311.64
26	Paper and Allied Products	1,159.57	2,351.85	1,639.21
27	Printing and Publishing	176.47	312.50	313.42
28	Chemicals, Allied Products	1,413.04	2,169.23	3,478.53
29	Petroleum and Coal Products	545.45	1,545.45	5,014.84
30	Rubber, Misc. Plastics Prod.	444.44	922.33	927.27
31	Leather, Leather Products	81.40	180.56	202.13
32	Stone, Clay, Glass Products	529.41	1,489.80	1,413.42
33	Primary Metal Industries	5,044.78	6,545.45	2,933.18
34	Fabricated Metal Products	238.81	546.67	526.74
344	Fabricated Struc. Metal Prods.	190.48	371.43	------
349	Mis. Fabricated Metal Products	242.42	653.06	------
35	Machinery, Except Electric	207.92	358.78	429.23
36	Electric, Electronic Equip	171.30	338.84	420.83
37	Transportation Equipment	264.71	254.24	517.88
371	Motor Vehicles and Equipment	162.16	264.71	------
38	Instruments, Related Goods	--	200.00	308.62

Source: 1974 Annual Survey of Manufactures and 1978 Annual Survey of Manufactures, U.S. Department of Commerce, Bureau of the Census.

Table IX

Electric Energy Costs per Kwh
Arkansas (1974 and 1978) and United States (1978)

SIC Code	Description	1974 Arkansas	1978 Arkansas	1978 U.S.
20	Food and Kindred Products	$0.0180	$0.0274	$0.02[illegible]0
201	Meat Products	0.0175	0.0252	--
203	Preserved Fruits and Vegetables	0.0162	0.0263	--
204	Grain Mill Products	0.0179	0.0284	--
22	Textile Mill Products	0.0182	0.0267	0.0265
23	Apparel, Oth. Textile Prods.	0.0154	0.0322	0.0370
232	Men's and Boy's Furnishings	0.0129	0.0330	--
233	Women's and Misses' Outerwear	0.0221	0.0289	--
24	Lumber and Wood Products	0.0194	0.0299	0.0260
242	Sawmills and Planning Mills	0.0202	0.0311	--
243	Millwork, Plywood, Stuc. Membs.	0.0167	0.0262	--
249	Miscellaneous Wood Products	0.0196	0.0303	--
25	Furniture and Fixtures	0.0178	0.0293	0.0352
26	Paper and Allied Products	0.0157	0.0246	0.0230
27	Printing and Publishing	0.0155	0.0312	0.0347
28	Chemicals, Allied Products	0.0141	0.0270	0.0216
29	Petroleum and Coal Products	0.0199	0.0256	0.0246
30	Rubber, Misc. Plastics Prod.	0.0133	0.0259	0.0302
31	Leather, Leather Products	0.0210	0.0347	0.0355
32	Stone, Clay, Glass Products	0.0127	0.0265	0.0276
33	Primary Metal Industries	0.0120	0.0173	0.0202
34	Fabricated Metal Products	0.0176	0.0297	0.0325
344	Fabricated Struc. Metal Prods.	0.0202	0.0311	--
349	Mis. Fabricated Metal Products	0.0193	0.0284	--
35	Machinery, Except Electric	0.0174	0.0278	0.0319
36	Electric, Electronic Equip	0.0150	0.0236	0.0301
37	Transportation Equipment	0.0157	0.0290	0.0304
371	Motor Vehicles and Equipment	0.0119	0.0290	--
38	Instruments, Related Goods	--	0.0283	0.0327

Source: 1974 Annual Survey of Manufactures and 1978 Annual Survey of Manufactures, U.S. Department of Commerce, Bureau of the Census.

APPENDIX B

Questionnaires Used in the Study

Arkansas Industrial Development Commission

Bureau of Business and Economic Research
University of Arkansas – Fayetteville

60

Industrial Manufacturing Survey

Please complete this questionnaire and return it to the University in the envelope provided. **Individual responses will be treated as confidential material and results of this study will be released by the University in aggregated form only so that there is no disclosure of the responses provided by individual firms.**

Should you have any questions concerning the Survey, please feel free to contact Phillip Taylor, Director, Bureau of Business and Economic Research, University of Arkansas, Fayetteville, AR 72701 (Telephone 501-575-4151).

Name of Company ______________________________
Plant location ______________________________
Street City Zip
Representative delivering questionnaire ______________________________

The following questions generally ask for information, except where specifically noted, for your fiscal year ending in 1983. Attached is a set of definitions of a selected group of terms used in the questionnaire. So that answers of all survey respondents will be comparable, please base your answers on the definitions provided.

Section I

1. Person Completing Questionnaire ______________ Telephone ______________
2. Is this location the headquarters of the company? ☐ Yes ☐ No (Where is your headquarters located?) ______________
3. In what month does your fiscal year end? ______________
4. Principal Product of Plant ______________
5. Plant SIC Classification ______________
6. Which best describes the major market served by this facility? ☐ State ☐ National ☐ Regional ☐ International

Section II

1. Total Number of employees during pay period including March 12, 1984 ______________
2. Annual payroll (fiscal 1983) ______________
3. Employer's cost for fringe benefits (supplemental labor costs). Total fiscal 1983. ______________
4. Cost of materials and services used during fiscal 1983 (please see definition) ______________
5. Inventory, including work in process
   Beginning fiscal 1983 ______________
   End of fiscal 1983 ______________
6. Value of shipments during fiscal 1983. (see definition) ______________
7. Approximately what percent of total operating costs does electricity purchased represent? (please see definition of total operating costs.) ______________%
8. Approximately what percent of sales (value of shipments) is total operating costs? ______________%

Section III

1. Amount of each of the following purchased as energy during fiscal 1983.

		Units	Cost
A.	Electricity (kWh – dollars)	______	______
B.	Natural Gas (MCF – dollars)	______	______
C.	Oil (Gallons – dollars)	______	______
D.	Coal (Tons – dollars)	______	______
E.	LP Gas (Gallons – dollars)	______	______
F.	Central Steam (MLBS – dollars)	______	______

Section IV Business Expansion Potential

1. 1983 production level was what percentage of your normal operating capacity?
    1. ☐ 1-20%
    2. ☐ 21-40%
    3. ☐ 41-60%
    4. ☐ 61-80%
    5. ☐ 81-100%
2. Describe the current and near term (1984) conditions at this facility.
    - a. Currently at Normal Operating Levels
        1. ☐ Should Continue
        2. ☐ Expect Decline
        3. ☐ Expect Upturn
        4. ☐ Do Not Know
    - b. Currently Below Normal
        1. ☐ Should Continue
        2. ☐ Expect Further Decline
        3. ☐ Expect Upturn
        4. ☐ Do Not Know
    - c. Currently Above Normal
        1. ☐ Should Continue
        2. ☐ Expect Decline
        3. ☐ Expect Further Upturn
        4. ☐ Do Not Know
3. What is the long-term (1985-1990 or five year plan) outlook for this facility?
    - a. ☐ Favorable business conditions will probably cause expansion.
    - b. ☐ Favorable business conditions will prompt a move to a larger facility.
    - c. ☐ Unfavorable business conditions will probably force cutbacks.
    - d. ☐ Unfavorable business conditions will probably force closing.
    - e. ☐ Neither expansion nor cutbacks are anticipated.
    - f. ☐ Other (Identify)
4. If your company should decide to expand its capacity, do you believe that expansion is likely to take place in Arkansas? ☐ Yes ☐ No
5. Please describe the factors that determined your response to question 4 above.
6. If your answer to question 4 was *yes*, do you believe that expanded capacity is likely to be in the form of
    - a. ☐ an increase in the investment in this facility.
    - b. ☐ the construction of a new facility at another site.
    - c. ☐ both (a) and (b) above.
7. In your opinion, what are the *three* most *positive* aspects (if any) of your plants' location in Arkansas?
    - a.
    - b.
    - c.
8. In your opinion, what are the *three* most *negative* aspects (if any) of your plants' location in Arkansas?
    - a.
    - b.
    - c.
9. If A P & L has made any changes in the last two years that have impacted your company either positively or negatively, please describe those changes and explain how they impacted on your establishment.
10. If your company has made a study comparing electric energy costs in various states, please provide the address and/or telephone number of the office or person that conducted the study.

Name telephone number

Street or P.O. Box

City

State Zip Code

Please add any additional comments you wish concerning the questions asked *or* the economic climate in Arkansas.

DEFINITIONS

Cost of Materials and Services

The term "cost of materials" refers to direct charges actually paid or payable for items consumed or put into production during the year. including freight charges and other direct charges incurred by the establishment in acquiring these materials. The cost of materials includes (a) the total delivered cost of all raw materials, semifinished goods. parts, components, containers, scrap, and supplies put into production or used as operating supplies and for repair and maintenance during the year; (b) the amount paid for electric energy purchased; (c) the amount paid for all fuels consumed for heat. power, or the generation of electricity; (d) the cost of work done by others on materials or parts furnished by manufacturing establishments (contract work); (3) the cost of products both and resold in the same condition. The total excludes the cost of services used, such as advertising. insurance, telephone, etc., and research, developmental, and consulting services of other establishments; it also excludes overhead costs. such as depreciation charges, rent. interest, royalties. etc.; it excludes materials, machinery, and equipment used on plant expansion or capitalized repairs which are charageable to fixed assets accounts.

Value of Shipments

This is net selling value received or receivable, f.o.b. plant, after discounts and allowances. and excluding freight charges and excise taxes. However, if the products of an industry are customarily delivered by the manufacturing establishments (bakery products, fluid milk. and soft drinks. for example) the value of shipments can be stated as the delivered price of the goods rather than the f.o.b. plant price.

Total Operating Cost

The term "total operating cost" is defined to mean all deductions from sales in arriving at net operating income. i.e.. net income before interest expense. non-operating income, and non-operating expenses.

Arkansas Industrial Development Commission

Bureau of Business and Economic Research
University of Arkansas - Fayetteville

Industrial Manufacturing Survey

Please complete this questionnaire and return it to the University in the envelope provided. **Individual responses will be treated as confidential material and results of this study will be released by the University in aggregated form only so that there is no disclosure of the responses provided by individual firms.**

Should you have any questions concerning the Survey, please feel free to contact Phillip Taylor, Director, Bureau of Business and Economic Research, University of Arkansas, Fayetteville, AR 72701 (Telephone 501-575-4151).

Name of Company ____________________

Plant Location ____________________
Street City Zip

The following questions generally ask for information, except where specifically noted, for your fiscal year ending in 1983. Attached is a set of definitions of a selected group of terms used in the questionnaire. So that answers of all survey respondents will be comparable, please base your answers on the definitions provided.

Section I

1. Person Completing Questionnaire ____________________ Telephone ____________
2. In what month does your fiscal year end? ____________________
3. Principal Product of Plant ____________________
4. Plant SIC Classification ____________________

Section II

1. Total Number of employees during pay period including March 12, 1984 ____________
2. Annual payroll (fiscal 1983) ____________
3. Employer's cost for fringe benefits (supplemental labor costs). Total fiscal 1983. ____________
4. Cost of materials and services used during fiscal 1983 (please see definition) ____________
5. Inventory, including work in process
   Beginning fiscal 1983 ____________
   End of fiscal 1983 ____________
6. Value of shipments during fiscal 1983. (See definition) ____________
7. Approximately what percent of total operating costs does electricity purchased represent? (please see definition of total operating costs.) ____________%
8. Approximately what percent of sales (value of shipments) is total operating costs? ____________%

Section III

1. Amount of each of the following purchased as energy during fiscal 1983.

	Units	Cost
A. Electricity (kWh – dollars)		
B. Natural Gas (MCF – dollars)		
C. Oil (Gallons – dollars)		
D. Coal (Tons – dollars)		
E. LP Gas (Gallons – dollars)		
F. Central Steam (MLBS – dollars)		

Section IV Business Expansion Potential

1. If your company should decide to expand its capacity, do you believe that expansion is likely to take place in your location? ☐ yes ☐ no
2. Please describe the factors that determined your response to question 1. ____________________

DEFINITIONS

Cost of Materials and Services

The term "cost of materials" refers to direct charges actually paid or payable for items consumed or put into production during the year. including freight charges and other direct charges incurred by the establishment in acquiring these materials. The cost of materials includes (a) the total delivered cost of all raw materials, semifinished goods. parts, components, containers, scrap, and supplies put into production or used as operating supplies and for repair and maintenance during the year; (b) the amount paid for electric energy purchased; (c) the amount paid for all fuels consumed for heat. power, or the generation of electricity; (d) the cost of work done by others on materials or parts furnished by manufacturing establishments (contract work); (3) the cost of products both and resold in the same condition. The total excludes the cost of services used, such as advertising. insurance, telephone, etc., and research, developmental. and consulting services of other establishments; it also excludes overhead costs, such as depreciation charges, rent, interest, royalties, etc.; it excludes materials, machinery, and equipment used on plant expansion or capitalized repairs which are charageable to fixed assets accounts.

Value of Shipments

This is net selling value received or receivable, f.o.b. plant, after discounts and allowances. and excluding freight charges and excise taxes. However, if the products of an industry are customarily delivered by the manufacturing establishments (bakery products, fluid milk. and soft drinks. for example) the value of shipments can be stated as the delivered price of the goods rather than the f.o.b. plant price.

Total Operating Cost

The term "total operating cost" is defined to mean all deductions from sales in arriving at net operating income. i.e.. net income before interest expense. non-operating income, and non-operating expenses.

APPENDIX C

Business Conditions and Expansion Potential

Table X

Business Conditions and Expansion Potential
Summary of Responses by SIC

	SIC				
	20	22	24	25	26
1. 1983 production level was what percentage of your normal operating capacity?					
1. [] 1-20%	-	-	-	-	-
2. [] 21-40%	-	-	-	-	-
3. [] 41-60%	2	1	2	-	-
4. [] 61-80%	6	1	4	1	-
5. [] 81-100%	7	1	10	2	5
2. Describe the current and near term (1984) conditions at this facility.					
a. Currently at Normal Operating Levels	8	1	12	2	5
1. [] Should Continue	3	1	9	1	4
2. [] Expect Decline	-	-	3	1	-
3. [] Expect Upturn	5	-	-	-	1
4. [] Do Not Know	-	-	-	-	-
b. Currently Below Normal	4	1	3	-	-
1. [] Should Continue	-	-	2	-	-
2. [] Expect Further Decline	-	-	-	-	-
3. [] Expect Upturn	4	-	1	-	-
4. [] Do Not Know	-	1	-	-	-
c. Currently Above Normal	3	1	-	1	-
1. [] Should Continue	1	1	-	1	-
2. [] Expect Decline	-	-	-	-	-
3. [] Expect Further Upturn	2	-	-	-	-
4. [] Do Not Know	-	-	-	-	-
3. What is the long-term (1985-1990 or five year plan) outlook for this facility?					
a. [] Favorable business conditions will probably cause expansion.	8	1	3	2	-
b. [] Favorable business conditions will prompt a move to a larger facility.	1	-	-	-	-
c. [] Unfavorable business conditions will probably force cutbacks.	1	1	2	-	-
d. [] Unfavorable business conditions will probably force closing.	-	-	-	-	-
e. [] Neither expansion nor cutbacks are anticipated.	5	1	9	1	5
f. [] Other	-	-	2	-	-

Table X (Cont.)

	SIC				
	20	22	24	25	26
4. If your company should decide to expand its capacity, do you believe that expansion is likely to take place in Arkansas?					
[] Yes	11	1	12	2	-
[] No	2	2	3	1	3
6. If your answer to question 4 was *yes*, do you believe that expanded capacity is likely to be in the form of					
a. [] an increase in the investment in this facility.	9	1	10	-	-
b. [] the construction of a new facility at another site.	1	-	1	1	-
c. [] both (a) and (b) above.	1	-	1	-	-

Table X (Cont.)

	SIC				
	27	28	29	30	31
1. 1983 production level was what percentage of your normal operating capacity?					
1. [] 1-20%	-	-	-	-	-
2. [] 21-40%	-	1	-	-	-
3. [] 41-60%	-	1	-	1	-
4. [] 61-80%	2	1	2	1	2
5. [] 81-100%	-	1	2	3	1
2. Describe the current and near term (1984) conditions at this facility.					
a. Currently at Normal Operating Levels	2	3	3	4	2
1. [] Should Continue	1	3	3	3	1
2. [] Expect Decline	-	-	-	1	-
3. [] Expect Upturn	1	-	-	-	-
4. [] Do Not Know	-	-	-	-	1
b. Currently Below Normal	-	1	1	1	1
1. [] Should Continue	-	-	1	1	1
2. [] Expect Further Decline	-	-	-	-	-
3. [] Expect Upturn	-	1	-	-	-
4. [] Do Not Know	-	-	-	-	-
c. Currently Above Normal	-	-	-	1	-
1. [] Should Continue	-	-	-	1	-
2. [] Expect Decline	-	-	-	-	-
3. [] Expect Further Upturn	-	-	-	-	-
4. [] Do Not Know	-	-	-	-	-
3. What is the long-term (1985-1990 or five year plan) outlook for this facility?					
a. [] Favorable business conditions will probably cause expansion.	1	2	2	2	-
b. [] Favorable business conditions will prompt a move to a larger facility.	-	-	-	1	-
c. [] Unfavorable business conditions will probably force cutbacks.	-	1	1	1	2
d. [] Unfavorable business conditions will probably force closing.	-	-	-	-	-
e. [] Neither expansion nor cutbacks are anticipated.	1	1	1	1	1
f. [] Other	-	-	-	1	-

Table X (Cont.)

	SIC				
	27	28	29	30	31
4. If your company should decide to expand its capacity, do you believe that expansion is likely to take place in Arkansas?					
[] Yes	2	3	2	1	1
[] No	-	1	1	4	2
6. If your answer to question 4 was *yes*, do you believe that expanded capacity is likely to be in the form of					
a. [] an increase in the investment in this facility.	2	2	2	2	-
b. [] the construction of a new facility at another site.	-	-	-	-	-
c. [] both (a) and (b) above.	-	1	-	-	-

Table X (Cont.)

	32	33	34	35	36
1. 1983 production level was what percentage of your normal operating capacity?					
1. [] 1-20%	-	-	-	-	-
2. [] 21-40%	-	-	-	1	-
3. [] 41-60%	-	1	3	-	1
4. [] 61-80%	2	4	2	3	2
5. [] 81-100%	1	1	2	1	3
2. Describe the current and near term (1984) conditions at this facility.					
a. Currently at Normal Operating Levels	2	3	7	2	2
1. [] Should Continue	2	2	1	2	2
2. [] Expect Decline	-	-	-	-	-
3. [] Expect Upturn	-	1	4	-	-
4. [] Do Not Know	-	-	2	-	-
b. Currently Below Normal	1	2	1	3	1
1. [] Should Continue	1	-	1	1	1
2. [] Expect Further Decline	-	1	-	-	-
3. [] Expect Upturn	-	1	-	2	-
4. [] Do Not Know	-	-	-	-	-
c. Currently Above Normal	-	1	-	-	3
1. [] Should Continue	-	-	-	-	2
2. [] Expect Decline	-	1	-	-	-
3. [] Expect Further Upturn	-	-	-	-	-
4. [] Do Not Know	-	-	-	-	1
3. What is the long-term (1985-1990 or five year plan) outlook for this facility?					
a. [] Favorable business conditions will probably cause expansion.	1	3	6	4	1
b. [] Favorable business conditions will prompt a move to a larger facility.	-	-	-	-	1
c. [] Unfavorable business conditions will probably force cutbacks.	1	1	-	-	1
d. [] Unfavorable business conditions will probably force closing.	-	-	-	-	-
e. [] Neither expansion nor cutbacks are anticipated.	1	2	2	1	3
f. [] Other	-	-	-	-	-

Table X (Cont.)

	SIC				
	32	33	34	35	36
4. If your company should decide to expand its capacity, do you believe that expansion is likely to take place in Arkansas?					
☐ Yes	1	4	7	4	2
☐ No	2	1	1	-	4
6. If your answer to question 4 was yes, do you believe that expanded capacity is likely to be in the form of					
a. ☐ an increase in the investment in this facility.	1	3	8	3	2
b. ☐ the construction of a new facility at another site.	-	-	-	-	-
c. ☐ both (a) and (b) above.	-	1	-	1	1

Table X (Cont.)

	SIC		Total	
	37	39	Number	%
1. 1983 production level was what percentage of your normal operating capacity?				
1. [] 1-20%	-	-	-	-
2. [] 21-40%	1	-	3	3.19
3. [] 41-60%	1	-	13	13.83
4. [] 61-80%	1	1	35	37.23
5. [] 81-100%	1	2	43	47.74
2. Describe the current and near term (1984) conditions at this facility.				
a. Currently at Normal Operating Levels	3	2	63	66.32
1. [] Should Continue	1	1	40	63.49
2. [] Expect Decline	-	-	5	7.94
3. [] Expect Upturn	2	1	15	23.81
4. [] Do Not Know	-	-	3	4.76
b. Currently Below Normal	1	1	22	23.16
1. [] Should Continue	-	-	9	40.91
2. [] Expect Further Decline	-	-	1	4.54
3. [] Expect Upturn	1	1	11	50.00
4. [] Do Not Know	-	-	1	4.54
c. Currently Above Normal	-	-	10	10.53
1. [] Should Continue	-	-	6	60.00
2. [] Expect Decline	-	-	1	10.00
3. [] Expect Further Upturn	-	-	2	20.00
4. [] Do Not Know	-	-	1	10.00
3. What is the long-term (1985-1990 or five year plan) outlook for this facility?				
a. [] Favorable business conditions will probably cause expansion.	2	2	40	41.67
b. [] Favorable business conditions will prompt a move to a larger facility.	-	-	3	3.12
c. [] Unfavorable business conditions will probably force cutbacks.	-	-	12	12.50
d. [] Unfavorable business conditions will probably force closing.	-	-	-	0.00
e. [] Neither expansion nor cutbacks are anticipated.	1	1	37	38.54
f. [] Other	1	-	4	4.17

Table X (Cont.)

	SIC		Total	
	37	39	Number	%
4. If your company should decide to expand its capacity, do you believe that expansion is likely to take place in Arkansas?				
[] Yes	3	3	59	68.60
[] No	-	-	27	31.40
6. If your answer to question 4 was *yes*, do you believe that expanded capacity is likely to be in the form of				
a. [] an increase in the investment in this facility.	3	2	50	83.33
b. [] the construction of a new facility at another site.	-	-	3	5.00
c. [] both (a) and (b) above.	-	1	7	11.67

Senator **Bumpers**. The committee's going to stand in recess for about 5 minutes for all the obvious reasons. [Laughter.]

[Short recess taken.]

Senator **Bumpers**. The committee will come to order.

Our next witness is the chairman of the Arkansas Public Service Commission, Dr. Robert Johnston. Robert, thank you very much for being with us this morning. We look forward to hearing your testimony.

STATEMENT OF DR. ROBERT JOHNSTON, CHAIRMAN, ARKANSAS PUBLIC SERVICE COMMISSION, ACCOMPANIED BY LARRY JEGLEY, STAFF ATTORNEY, ARKANSAS PUBLIC SERVICE COMMISSION

Dr. **Johnston**. Thank you, Senator Bumpers.

In just a moment I will summarize my testimony, but first I'd like to introduce—with me today are my two fellow commissioners. I'd ask them to stand. James Daniel of Searcy County—he may not have come in from the very needed break, Senator, thank you—and Patricia Qualls of Craighead County is here. With me also is—Commissioner Daniel just came in with a cup of coffee in the back there—with me also is staff attorney Larry Jegley, and he will make an independent statement.

I think as you're aware, Senator, the PSC is a quasi-legislative, quasi-judicial body. We operate in the judicial format, and we are expected—and do—seek to be neutral and objective on the issues coming before us, weighing the interests of the consumers and the utilities. We do not prejudge issues and I will be very careful here and somewhat circumspect in what I say, because I want to emphasize that neither I nor my fellow commissioners have made judgments on, for example, excess capacity as an issue in the case before us now and may well be in a case that AP&L has.

The staff, on the other hand, develops their positions in rate cases independently of the commissioners, and function as consumer advocates representing the consumer interest. And therefore I think Mr. Jegley, who has developed his statement independent of mine and I of his, will be somewhat less fettered than I will be here.

Before we get to Grand Gulf, yesterday a State legislator told me I ought to praise AP&L more. And I do what State legislators suggest I do, so I'm going to praise them in two different senses. First I'll praise Mike Bemis, who is one of my very favorite utility officials. I would probably say my most favorite, but I don't want to upset some of the others. Second, I congratulate AP&L on bringing in their construction of the second unit at Independence ahead of schedule. I think this shows the diligence that AP&L has had in constructing the two nuclear plants at Russellville and the four coal plants.

I'd go on to say that, leaving aside the problems of Grand Gulf and Waterford, the problems arising out of the involvements of AP&L in Middle South, AP&L in Arkansas would be in very good shape. That may be a little bit like saying, "did you enjoy the play other than that, Mrs. Lincoln?"

The Mississippi Public Service commissioner has called Grand Gulf a nightmare. The president of the National Association of Utility Commissioners has compared Grand Gulf to Pearl Harbor. A California attorney has said that Middle South is fleeing to the Federal Government to get around pocketbook regulation.

Grand Gulf is serious enough that, until I understood the implications of Grand Gulf, I had about as much hair as Governor Clinton. [Laughter.]

Grand Gulf is a problem because the Grand Gulf—and I think there have been a number of comments—were not talking only about Grand Gulf, that's shorthand for the situation involving the *System Agreement* case as well—Grand Gulf and the Waterford plants are so very expensive. And I use here, in very rough terms, $4 billion; that's my estimate. The prices or the costs of these plants have been increased, in most instances, several times. That is a rounding off to the nearest billion. I'd be very surprised if they come in at closer to $3 billion than $4 billion.

It also is a problem because there is possibly, or allegedly, excess capacity in the Middle South system, and I'll talk further about each of these. It's problem because AP&L's participation in Grand Gulf potentially in Waterford was not brought to the Arkansas Public Service Commission for approval. It is a bypass, in effect, of the law passed when Governor Bumpers—when Senator Bumpers was Governor in 1973 requiring PSC approval before very expensive commitments were made by utilities. It's a further problem because the estimates you saw up here of the consequences, I think, have unreasonable estimates of the effect of price repression or price elasticity, and I'll speak about that, and that we'll see secondary and tertiary rate shock as well as initial rate shock. And finally, it's a problem because there are going to be other effects on other States that are not efficient in the national policy.

Just to undersand a little bit about the players here—and at the end of my statement is an appendix showing some of the history and some of the development of the Middle South system—Middle South Utilities, the parent holding company, has about $11 billion in assets, about $3 billion in annual revenues, and about $600 million estimated in profits for the current year. And I'll come back to that in just a moment. AP&L, a wholly owned subsidiary of that, about $3 billion in assets, about $1.3 billion in revenues, and about $200 million in profits. Those are what I took from the most recent SEC figures that I had; it is a doubling of the semiannual figures that were in there.

Middle South is the fifth largest utility in the United States in assets, the eighth largest in profits.

I'll put aside any discussion of excess capacity unless you ask a question, because I have to be somewhat circumspect about that.

One of the problems is that Louisiana is seeking to redistribute the costs of those very expensive nuclear plants onto Arkansas and Mississippi; and I think there is a sad irony in that because Arkansas and Mississippi, of course, are the two poorest States in the United States insofar as per capita income is concerned. There is also an irony in that Louisiana now—or in the study I used, in 1982 data—had the most attractive rate in the United States for manufacturing energy costs. Arkansas is, as Mr. Bemis points out, above the national average—or better than the national average—with that, but Arkansas is fourth out of the four States in the south central region with whom we compete, in large measure, on the cost of manufacturing energy.

In the sketching of the history there it points out the involvement of AP&L in Grand Gulf and the Middle South system. It's my understanding that the original involvement of AP&L was not for 17 percent, but instead was for a floating percentage based on need. And by that, the participation concept, AP&L would not be responsible for any part of Grand Gulf if those agreements that had been in operation from 1973 until 1981 remained in effect.

The second agreement was zero percent for AP&L, and that agreement remained in effect from 1980 through the present. However, in that period AP&L signed an agreement for the 17.1 percent, but with the very important proviso that the other companies would compensate AP&L if AP&L had to pay that, and that had to do with the financing agreements——

Senator BUMPERS. Robert, let me interrupt you at that point. Prior to that time AP&L had also signed agreements with the lending banks, had they not, to take 17.1 percent of the costs of Grand Gulf? What year was that that they did that?

Dr. JOHNSTON. That was in 1981, I believe, Senator. This is back in my statement, in appendix A——

Senator BUMPERS. The agreement where Arkansas Power & Light took nothing, and the other States agreed to that, was in 1980?

Dr. JOHNSTON. Right. And it was also further formalized again in 1981 and 1982.

Senator BUMPERS. My question, though, is—I think it was some time well prior to that, was it not, that AP&L signed guarantees——

Dr. JOHNSTON. That was June—all right, let me do the chronology here. In July 1980, AP&L and the other companies signed a memorandum of understanding for AP&L to receive zero percent of Grand Gulf. After that, in June 1981, in the second amendment to the availability agreement, because the banks wouldn't let AP&L out of their obligation on the floating percentage basis. AP&L accepted 17.1 percent, which was, as I understand it, the best estimate at that time of what they would have been eligible for. I point out that if that floating percentage concept had remained in effect, AP&L would not be responsible for 17 percent. It would be much less and that much closer to zero, I think, today. But in that bank agreement AP&L was to be compensated, to be made whole, to be indemnified by MP&L, LP&L, and New Orleans. So AP&L did not have, under that agreement, any vulnerability, any exposure, except if the other companies went bankrupt.

Senator BUMPERS. That was the availability agreement, was it not?

Dr. JOHNSTON. That was the second amendment to the availability agreement.

Senator BUMPERS. My question goes back before that, Robert. What year was it that AP&L——

Dr. JOHNSTON. All right, I've got that.

Senator BUMPERS. That was June 20, 1977, apparently.

Dr. JOHNSTON. Well, the first availability agreement was signed in June 1974, and in June 1977 there was a first assignment of that from Middle South to the banks. AP&L agreed to that, but that was with the floating percentage.

Senator BUMPERS. OK, I'm with you now. Go ahead.

Dr. JOHNSTON. So, the point I'm trying to make here is that originally, AP&L floating percentage, which would be close to zero now, the next zero percent, clearly, in there a 17 percent, but with indemnification from the other companies. One of the other problems is that LP&L, New Orleans, and Mississippi, who signed agreements in 1980, 1981, and 1982 for zero-percent allocation to AP&L, had reneged on that. They changed their mind. They signed contracts, but for whatever reason—mainly, I think, because the cost of the plants went up so much—they changed their minds and are no longer supporting the contracts which they signed. And to some extent, there are two major questions here. One of them, the allocation among the States, and I've heard Governor Clinton refer to it this morning, that a second question is the allocation between the ratepayers and the stockholders.

To some extent Louisiana was willing to buy 70 percent of Grand Gulf when the price seemed reasonable; but as the price went up they were no longer willing to do that, and they are seeking to shove it off on Arkansas Power & Light.

In my remarks I give some results about energy costs. I think you are aware that the PSC is generally not as sophisticated as AP&L, and it certainly doesn't have the resources for outside studies as much as AP&L, so we rely on studies of others. But Alexander Grant & Co. did a survey of what manufacturing associations think is important in deciding whether to locate in a State. And that survey, and there were some 40 State manufacturing associations that participated, found that energy cost is the single most important variable in deciding whether to locate for manufacturing in a State. It ranks ahead of all the others. In that, energy costs, Arkansas is fourth out of four in the South-Central region; it is behind almost all of our neighboring States in energy costs in that situation, and particularly behind Louisiana. And that's why it's anomalous or ironical that Louisiana——

Senator BUMPERS. Are you saying that the testimony that Mike Bemis gave a while ago on this, you're saying those studies are wrong?

Dr. JOHNSTON. Senator, I don't know. I have not had an opportunity to look at them. But I'm just saying that one study in—the study was actually in 1983, based on 1982 data—was that Arkansas is not able to compete in attracting manufacturing with other States in our region because our energy costs are high. And, of course, my concern is, and this is most of the people that you'll hear after, that if energy costs go up even higher, it will be hard for existing businesses to continue and for new businesses to be attracted.

In addition to manufacturing, agriculture is very sensitive to energy costs. The Census Bureau found that the number of medium-sized farms in Arkansas is declining because they're being squeezed out by production costs going up. The cost of energy increased by about 15 percent a year over the last 4 years. Rice production—of course, Arkansas is first in the Nation in rice production, and rice is a crop that cannot do without irrigation. A lot of crops can; although, to increase productivity, most crops are going to irrigation now. But rice has to be irrigated; irrigation requires energy; and, realistically, that is almost all electric energy.

I have a table in here, Senator, which shows a comparison of AP&L rates at the present time and what the increases would be with the case—this is on page 8 of my testimony—what the increases would be, as the staff calculates it, above the existing rates, with the case filed by AP&L in November that this Commission must decide by September of next year. And that shows that with the phasein effect there would be roughly a 30-percent increase for AP&L over the existing rates, and that would be in effect September 1985, if not before.

It also shows a comparison with Louisiana, that both with LP&L and New Orleans, their rates are lower now, and would still be lower. This is based on the case as filed by those utilities before the Louisiana Public Service Commission and reported in the New Orleans Times-Picayune.

Rate shock of 30 percent would be followed—and I guess I'm going to try to explain for Mr. Bemis—I'm not talking about, that the effect of Grand Gulf would be a 90-percent rate increase. I'm speaking here hypothetically, that in general, if rates go up by 30 percent, that leads to a conservation effect which would, over 2 or 3 years, reduce the quantity consumed of electricity by about 30 percent. And then AP&L would be expected, if consumption of electricity goes down—and this is one of the differences of why we think their figures on the settlement are not that good of an assumption—if prices go up by 30 percent and consumers conserve 30 percent of the quantity, AP&L would probably come in for a further rate increase, which might, the second time around, be a 30-percent increase as well; maybe, again, phased in over 2 or 3 years. Again, consumers save and cut back.

Now, the conservation differs among sectors. Industries conserve greater and more quickly than do residential users; but there is price elasticity or price repression on the use of electricity effects that are not properly involved, we think, in some of the projections of AP&L.

Some can't conserve as well as others, and in general, small businesses can't conserve as well as large businesses; residences and farmers can't conserve as well as commercial and big business establishments. There is some expectation that energy costs, electric costs, as they go up significantly, that small grocers will go out of business faster than large chains, who can make the investments to conserve. The small restaurants wil go out of business as their proportion of energy costs go up.

I talked about that some States will be very hesitant to permit interties of their utilities with others, which is, I think, an inefficient situation, if their fear is that other power pools in the United States will suffer system average costing as is projected, or attempted by the FERC staff here. And I do have—I do share some concerns of the Governor that there needs to be an investigation of whether the advantages of public utility holding companies outweigh the disadvantages.

And finally, I talk about that in other States—it will be very clear here, that I am distilling from what I have learned and experienced from other States, including in a report from Price Waterhouse on the public utility industry—that other States, their commissions are looking at disallowing some of the cost of construction plants based on either excess capacity or on imprudence in the construction. And I think that perhaps we will see that—perhaps Mr. Jegley can speak to that a little bit more when he comes up here.

And, finally, and this is an area in which I agree with AP&L, I mention that something that AP&L and the Commission and others in Arkansas will be looking at is the possibility of increasing, or selling some of the excess capacity. Not off systems, because most utilities don't need capacity, but on system, to existing customers and perhaps new customers in Arkansas by incentive rates, rates which would provide an incentive to existing and new customers to increase their consumption of electricity. That would have to come with it, though, perhaps some willingness to give from AP&L, and certainly an understanding from the expanded users, that those rates are interruptible; that if the capacity of AP&L or the use of the AP&L system grows to the point that we need a new generation of plants, then rather than very expensive plants in 1990, or by the year 2000, there's a way to conserve here. So those are all some alternatives.

Thank you, Senator, and if you have any questions, I'll do it; if not, we'll move on to Mr. Jegley— or if you want him——

Senator BUMPERS. Robert, thank you very much for your testimony. Where is Mr. Jegley?

Dr. JOHNSON. He's right there.

Senator BUMPERS. Come on up.

If you don't mind, Dr. Johnston, just stay until he's finished.

Mr. JEGLEY. Senator Bumpers, I really appreciate the opportunity to speak to you and this committee on behalf of the staff of the Arkansas Public Services Commission. We appreciate also Dr. Johnston allocating a portion of his time for some remarks.

I will not read my prepared statement in the interests of conservation of time. I would, however, like to make a few observations on some of the things that have been said that might be helpful to you in your consideration of this issue. I would also like to point out that it was my understanding that the focus of this hearing was to be on the effects of an allocation of Grand Gulf on farmers and small businessmen in this State, and that is something which, as a staff attorney for the Commission, representing the economists, accountants, and rate analysts, I feel a very deep and abiding concern that we feel when we go to bat against any utility in a rate case, that we're representing the farmers, the small businessmen, the grandmothers, the people on fixed incomes. That's a matter of very dear concern to us, and that primarily is the focus of my prepared statement.

A couple of things have been said about averages in AP&L rates——

Senator BUMPERS. Mr. Jegley, if I may interrupt you at this point. Does the PSC have a study showing the likely impact of any of these agreements on various small businesses that shows who's impacted more, and so on?

Mr. **Jegley**. Not that specific, no, sir. We sure don't.

Senator **Bumpers**. OK. Go ahead.

Mr. **Jegley**. All right, sir. I believe Mr. Bemis of AP&L spoke of several averages, AP&L rates being at or below average in all circumstances. Well, that may or may not be true, depending on whose numbers you use. I think that the better focus in this matter is on what the rates will be if we are given any or whatever portion of the Grand Gulf or Waterford nuclear plants.

I would point out that in reviewing the result of any such calculation, it would be well to consider that Arkansas is 49th in per capita income, and is 2d only to Florida in the number of persons over the age of 65, and at least theoretically, would have a high percentage of persons on fixed incomes. These are the people that the rates affect the most.

You also probably sensed today that there is a dynamic tension as far as the relationship of Arkansas Power & Light and the staff of the Public Service Commission, and I would simply like to point out that while AP&L does not necessarily seem to enjoy the existence of that tension, I think it is a good thing because in our view, the situation with the impact of Grand Gulf would be a lot different if we had a competitive marketplace in this State for electric services. And that is our role, on the staff of the service commission. We serve as a substitute or a proxy for a competitive marketplace.

I was glad to note that there has finally been a study done on this much-heralded 17.1-percent settlement proposal. This matter came up a number of months ago, and staff has never had available to it any work papers or numbers upon which we could even pass judgment on such a settlement proposal. It may be a good thing——

Senator **Bumpers**. Have you never seen this thing that we have here this morning, before?

Mr. **Jegley**. We have seen a copy—we have seen the settlement proposal, we have spoken with Arkansas Power & Light, but we have never gotten the backup numbers, the work papers that go into it. And unless we have those, we can't do our job and even comment. Of course, our position remains that zero percent is just and fair.

Senator **Bumpers**. Highly desirable. [Laughter.]

Mr. **Jegley**. Another thing that was brought up is what the purpose of Middle South Energy, Inc., is. Arkansas Power & Light Co.'s position is that it was set to facilitate financing of Grand Gulf nuclear station when Mississippi Power & Light became so anemic that they could not continue it. I don't doubt that that is true, at least in part. You will also hear the countervailing argument, and I personally agree with this side, that it was intended to some extent to circumvent State regulation. One thing that I do not think that anyone, the company included, can deny is that the net effect has been that State regulation has been evaded. And I think that's important to bear in mind. Whether it was intended or not, we are in a situation that does have an adverse impact on ratepayers and results in retroratemaking decisions being thrust into the Washington arena. And that's a great concern to us.

So whether it was intended or not, the thing that really matters, the thing that shows up in Arkansas citizens' and ratepayers' pocketbooks, is the fact that the decisions are not made locally, where they rightly should be.

I don't doubt that there was any intent on the part of Arkansas Power & Light or Middle South Utilities to violate Securities and Exchange Commission rules and regulations or statutes. But I do think that while directly, the intent of those laws—was not intentionally violated, I do think the spirit has been severely abused in public utility holding company framework.

I would also point out, as you mentioned—and, I gather, completely understand—the settlement proposal would have the public believe that we would only be subjected to give, or take a few points, a 6.8-percent increase over 10 years. And as you pointed out—I believe you asked Mr. Bemis—that is not the long and short of the matter. On top of that are the various increases which may come along regardless of plant additions. For example, the largest retail rate case ever filed by a jurisdictional utility before the Arkansas Public Service Commission, just filed by Arkansas Power & Light, seeks a 15.3-percent rate increase. So right there, if you accept the company's figures, which I certainly do not, you're talking about somewhere in the neighborhood of a 22-percent rate increase, everything else being equal, at the end of 10 years, assuming that they over the years achieve a 15.3-percent increase through a series of rate cases or in one fell swoop. So we've got not just one single increase, we've got the prospect of a lot of increases as costs go up with the company. I'm sure they're going to be in with additional rate cases.

There has also been some talk about excess capacity. Mr. Bemis, understandably, is definite in his assessment that Arkansas Power & Light has no excess capacity. I'd like to point out for the record that the staff of the Arkansas Public Service Commission, in what I view to be a conservative assessment of the situation, feels that right now, Arkansas Power & Light has 470 megawatts of excess capacity. Grand Gulf, you may recall—if we are allocated 36 percent—would add 405 megawatts to that. On top of this you have the short-term sales that were mentioned by one of the witnesses previously, totaling somewhere in the range of 1,000 megawatts. If you figure back and look at AP&L's own numbers, right now they have reserved in excess of 52 percent. The Middle South system supposedly strives for a 25-percent reserve margin, so they've got more than twice the reserves right now that they need, and there's a prospect of more and more additions coming on in the future.

Senator **Bumpers**. Let me interrupt you just a moment there, Mr. Jegley. Is your conclusion based on their needs to serve their own customers and not what they are selling to Louisiana or Mississippi, either one? Is that correct?

Mr. **Jegley**. Right. Excising them from the Middle South system and looking at them as stand alone.

Two final things, Senator. No. 1, Arkansas Power & Light is on record in proceedings before the Arkansas Public Service Commission—and I doubt very seriously, since they, in my view, do in large measure the beck and call of Middle South Utilities, will not change this position—the position is that stockholders of Middle

South are not going to pay for 1 cent of the Grand Gulf fiasco, and that's what I think it is, personally. I think it's a boondoggle of magnificent proportions. I don't think that's right. I think it represents the type of attitude that is detrimental to the ratepayers of Arkansas, and that if that attitude is to permeate the electric industry throughout this country, we've got some real tough times as regulators in the various States on our hands; and eventually, it may well have to be addressed at Washington with appropriate legislation.

You might also toss up a caveat to your colleagues. There are, with various other public utility holding companies right now, in the offing—one that comes to mind first is American Electric Power Co. up in Ohio and that region——

Senator BUMPERS. Is Michigan a part of that too?

Mr. JEGLEY. I don't know for sure. It's a large one; I think it probably ranks third among the public utility holding companies.

There is a move underfoot according to information that I have heard around and that I think is generally available, and there is talk that this systemwide cost-averaging problem may raise its head there before the FERC. You also have situations involving public utility holding companies setting up unregulated subsidiaries. To bring it back home Central & Southwest Services, the parent company of SWEPCO, serving western Arkansas, now has pending before the SEC an application to set up a subsidiary called CSW Credit, whose sole purpose is to buy accounts receivable from the operating companies in the Central & Southwest system. That would be a totally unregulated subsidiary of a public utility holding company; and according to our calculations—and we have been looking at this situation, incidentally—their return of equity would exceed 25 percent.

So public utility holding companies in this country are staffed with some of the brightest and most creative people that walk on the face of the Earth, in my judgment, and if they can do something that they perceive to be beneficial to their corporation, they're going to do it. And they are doing it right now, and MSE is a perfect example.

We thank you for the opportunity to just give you a little more biased assessment of the situation.

Senator BUMPERS. Thank you very much.

Let me ask you just one question, Mr. Jegley. If your calculations as to excess capacity of AP&L are right, what in your projection will be the timeframe in which it will take them to utilize that?

Mr. JEGLEY. As I mentioned in my prepared statement, the staff of the Public Service Commission feels that with some load management and conservation measures, it is not unlikely that Arkansas Power & Light could keep the native generation that they have right now—and I will say I'm sure Arkansas Power & Light will file something vehemently disagreeing with this—we think with load management and conservation measures, that they could foreseeably make it into the year 2000.

Senator BUMPERS. Let me say one thing. This is just an observation to prove that I am wrong on occasion.

When I first went to the Senate and got on the Energy Committee—as you remember, about the time that gas lines were long and we were really facing what we thought was a major crisis on gasoline consumption in this country, or availability—all the economists who had testified before the Energy Committee consistently said that gasoline is price inelastic at any price below $1.50 a gallon—at that time gasoline was 60 or 70 cents a gallon, and they said that it would have to go to $1.50 before people would conserve 10 percent. And I went around making speeches, parroting all the economists that said that, and that turned out to be about as wrong as anything could be. As soon as gasoline got to $1 a gallon people began to change their driving habits and the size of automobiles they were buying. The truth is, it turned out that demand for gasoline was quite price elastic. Of course, the availability and the price of gasoline right now has gotten us back in our old consumption habits; but there was a very dramatic decrease. You talk about price elasticity, that's a very difficult thing. Ed Muskie used to always say he'd like to have a one-armed economist before his committee so they couldn't say "on the one hand, but then on the other." [Laughter.]

Robert, and Mr. Jegley, thank you—Robert, did you want to add something?

Dr. JOHNSTON. Senator, there were three questions that you asked, and let me comment on them. I think one of them, perhaps, you had intended to ask me, on the prudency at the examination.

This was raised briefly at FERC early in the proceeding, I think in 1982, and no one really really followed it; perhaps because a plant that appeared prudent at projections that would have been in operation in early 1983, 2 years ahead of now, at $2 billion rather than what I suspect will be $4 billion, looks more prudent.

Another thing is that the customers at the time of the Middle South Grand Gulf project, Louisiana Power & Light, New Orleans, and MP&L, did not raise the question of prudence there. AP&L was not a customer at the time, Arkansas Public Service Commission, although it intervened, was working under the impression or the assumption it was zero percent. This points out again, perhaps, that the FERC staff and, similarly, the SEC staff, in seeking to enforce the Public Utility Holding Company Act, is either not as diligent as State commission staffs, and maybe the Commission, or is overburdened. But there's a question now about whether prudency can be raised, and we'll probably see a discussion of that.

A second point on the settlement, and I guess you asked Congressman Anthony and Governor Clinton on it—let me represent a little bit more of the PSC position. The PSC, based on advice not only from our attorneys but in consultation with the attorneys of the other Arkansas parties, including the congressional attorneys, the attorneys for the Coalition of Arkansas Industries, including Reynolds, felt it was not in the best interest of the States; partly, that we were assured it was not acceptable to the FERC staff, to the full FERC, and to the Louisiana parties, and that the effect would be to raise the floor.

A second reason is that it's very dependent on the cost of the Grand Gulf, and you've heard Mr. Bemis here say that that 6.8 percent plus or minus 3 percent is not concrete, it's variable and the costs of Grand Gulf have changed, I think, 12 different times. So we have some hesitancy about accepting those figures. It was based on projections of load growth—in Arkansas, they have been continuously erroneous by AP&L because they are based on much more optimistic projections of price elasticity than we are willing to accept and you are. The figures that I used are an average of some 17 studies by an objective, neutral——

We also think that zero percent is not only what is fair to state, but has a very good chance of legally continuing, because that's what the Federal Power Act says. There was not politics involved in ours, and you can see that in that the Arkansas industries, including Reynolds, did not support that settlement either, and as far as I know, they didn't have political, they had economic concerns.

If the legislature and the Governor recommend that we support it, then they are in effect our bosses and we would do so.

The excess capacity—the Commission, of course, has it before it. I'm a little confused because I understood President Malden in his speech to the State chamber, to say that they did have excess capacity. But it may be on how you view it.

Thank you.

Senator BUMPERS. Robert, before you go, one other question—and I should have asked this of AP&L. I might call Mike back after while to get this on the record.

I'm also on record opposed to the settlement, but I oppose it for three reasons. First, I haven't really had a chance to study it and look at it. Second, the attorneys in Washington—they didn't much want it either. Third, there was a question as to whether or not, once we enter into those negotiations and submit the negotiations to FERC, whether or not FERC could impose a settlement other than that which was proposed, which might not be to our liking at all, even if we had agreed to the proposal. Is that a correct statement or not?

Dr JOHNSTON. It is correct that once you move to a settlement conference, or even without a settlement conference, FERC can impose a settlement over the objections of some of the parties. There was a further objection to entering into the settlement because our legal advise is that our chances are much better—the legal arguments are better in the second case, the *System Agreement* case, and the settlement conference would occur before there was an administrative law judge decision in that case, which we thought was disadvantageous. So that's our other reasons, too.

Senator BUMPERS. I might just say that if the cases go to the court of appeals and the Supreme Court, the best argument seems to me that if the present ALJ decision were to be affirmed, you could set out about 10 scenarios which would clearly be permissible in the future, that would be clearly way beyond not only just this instance, but other scenarios that would be way beyond anything that Congress ever envisioned or intended. I'm not an eternal optimist, and I know people are pessimistic about our chances. I still believe that at some level, somebody's going to look at the Public Utility Holding Company Act and rule in our favor.

Dr. JOHNSTON. I agree with you, Senator. In 1935, Congress—the Federal Power Act and the Public Utility Holding Company Act—were seeking to prevent many of the ills that have reoccurred here, and——

Senator BUMPERS. Precisely what's happened here.

Mr. **Johnston** [continuing]. And FERC and the SEC staff have apparently strayed a long way from enforcing the intent of both those acts in 1935. That's my estimation, and I think legally we'll come out that way.

Senator **Bumpers**. Well, Dr. Johnston and Mr. Jegley, thank you very much for being with us.

Mr. **Johnston**. Thank you, Senator.

Mr. **Jegley**. Thank you, Senator.

[The prepared statements of Dr. Johnston and Mr. Begley follow:]

STATEMENT OF

DR. ROBERT JOHNSTON

CHAIRMAN

ARKANSAS PUBLIC SERVICE COMMISSION

TO

U. S. SENATE

COMMITTEE ON SMALL BUSINESS

"THE EFFECT OF GRAND GULF ON

SMALL BUSINESS AND AGRICULTURE IN ARKANSAS"

DECEMBER 7, 1984

1. "Grand Gulf Nightmare", official says. Mississippi Public Service Commissioner Neilson Cochran has called the Grand Gulf Nuclear Plant "a financial nightmare" and asked Mississippi Power and Light to voluntarily withdraw its plan to complete the plants embattled second unit. "I think it would be prudent on their part to close down Unit II, dismantle it, and salvage what they can ... . There is no way we can survive Unit II...the customers of Arkansas Power and Light would be expected to pay for a portion of Grand Gulf Unit II if Arkansas should lose either of two pending Federal Energy cases involving the four utilities owned by Middle South Utilities Incorporated. (Arkansas Democrat, November 21, 1984, Page 1 A.)

2. Louisiana saying Grand Gulf is just a local matter is like the Japanese saying it's just a local matter that they dropped a few bombs on Pearl Harbor. (Junie Bradshaw, President of National Association of Regulatory Utility Commissioners, Annual Meeting of NARUC at Los Angeles, November 27, 1984.)

3. Grand Gulf is an important phenomenon. Regulating utilities has been a state business for 100 years. With Grand Gulf Middle South (owners of the plant) is trying to end-run state regulation. The utility is fleeing to the federal government to get around pocketbook regulation. (Great grandson of the founder of Pacific Gas and Electric, largest electric utility in the U.S.)

Statement of Dr. Robert Johnston
Chairman, Arkansas Public Service Commision
To the United States Senate Committee on Small Business
Hearing, December 7, 1984.
Little Rock, Arkansas

"The Potential Impact of the Grand Gulf Nuclear Plant on Small Businesses and Farmers in Arkansas"

My statement will first outline why Grand Gulf and the entire situation involving AP&L, the Middle South System and The Federal Energy

Regulatory Commission (FERC) is a problem to Arkansas small businesses and farmers. Secondly, I'll sketch how we got here, and thirdly, discuss some consequences and possible solutions to the problems in which we find ourselves.

Grand Gulf is a problem because: 1.) The Grand Gulf I plant and the other nuclear plant being built in the Middle South System, Waterford, are very expensive; 2.) it is argued by some that there is probably excess capacity in the Mid-South System as well as in Arkansas; 3.) the siting, construction and accompanying economic consideration of Grand Gulf have never been brought before the Arkansas Public Service Commission for its approval or disapproval; 4.) Further Grand Gulf and the Mid-South situation is a problem because of price repression... secondary and tertiary rate shock as well as initial rate shock, and; 5.) due to effects on other states, there will be problems beyond Arkansas.

There are two cases before the Federal Energy Regulatory Commission involving AP&L, Middle South, Grand Gulf and other plants in the Middle South System. The first of those, the Grand Gulf case would (if the initial decision of Administrative Law Judge Ernest Liebman is upheld) apportion 36% of Middle South's 90% share of Grand Gulf (32% overall) to Arkansas which would result in substantial rate increases in the first year (or if phase-in is utilized over several years) in Arkansas. The second case, the System Agreement case would have a further effect as proposed by the Louisiana PSC and all Louisiana parties but also supported by the FERC Staff, of averaging costs throughout the Mid-South system. That would give Arkansas not only a substantial share of the very expensive Grand Gulf nuclear plant but also of the very expensive Waterford nuclear plant which is nearing completion by Louisiana Power and Light. A further disadvantage of system average costing would be to take away from Arkansas ratepayers the lower cost generating capacity of the six plants built by AP&L in Arkansas over the last decade (the two nuclear plants at Russellville, the two coal plants at White Bluff, and the two coal plants at Newark in Independence County). The addition to the present rate base of Middle South of two new nuclear plants to the order of $4 billion each, with a portion of each possibly going to Arkansas, is the crux of the problem.

It helps to understand the size of two of the players in this monumental game:

	Assets	Annual Revenues	Annual Profits
A. Middle South Utilities	$11,000,000,000	$3,000,000,000	$600,000,000
B. AP&L	$3,000,000,000	$1,300,000,000	$200,000,000

(NOTE: Rounded to nearest $100 million)

Middle South is the 5th largest utility in the United States insofar as assets and the 8th largest in the U.S. ranked by profits.

Another potential explanation for the problem is that there are many who argue that the Mid-South System apparently has substantial excess capacity; and Arkansas Power and Light as a "stand-alone" company (if it were not part of the Mid-South System) also has substantial excess capacity as well. There is a significant disagreement among the parties of exactly how to define excess capacity, i.e. "Are the reserves of Arkansas Power and Light (without Grand Gulf) 50% above the system peak? Or are they more or less than 50%?" With any portion of Grand Gulf, Arkansas Power and Light will certainly have far more capacity than it needs at the present time.

Another problem is that Louisiana is seeking to redistribute the costs of the Grand Gulf and Waterford plants onto Arkansas and Mississippi. Louisiana Power & Light (LP&L) and New Orleans Public Service (NOPS) agreed, in a number of different documents and contracts from 1980-82 to a 0% allocation of Grand Gulf to AP&L and to a System Agreement without cost averaging (see Appendix A). LP&L and NOPS are now seeking to reduce their share of the plants now that the plants have been delayed and have become so expensive. Louisiana seeks to put their share on Arkansas and Mississippi...the two poorest states in the United States, insofar as per capita income.

An industrial attractiveness study by Alexander Grant, Certified Public Accountant, finds Louisiana to be the most attractive state in the United States for manufacturers insofar as energy costs per million BTU's. That would change substantially if Louisiana paid for all of the Waterford plant and the percentage of the Grand Gulf plant that Louisiana Power and Light and New Orleans Public Service agreed to in 1980-82. The fact is that Louisiana is now unwilling to pay the piper.

Grand Gulf is also a problem because the means of constructing and financing Grand Gulf effectively by-passes state regulation. States have traditionally had the responsibility for scruitinizing the economic need for new electric generating plants. Middle South Energy (MSE) has the apparent appearance of being only a paper corporation, at least to the extent that it has no full time employees. MSE was created to take over the construction of Grand Gulf from Mississippi Power and Light when MP&L realized that it could not finance its construction. MSE also took over the construction of Grand Gulf II which was initially scheduled to be built by New Orleans Public Service after New Orleans Public Service discovered that it could not construct the plant on the site originally chosen and also perhaps because of NOPS financing problems. MSE then turned around and contracted with MP&L to construct and operate both Grand Gulf plants. MSE plans to sell power at wholesale across state lines and thus have its rates set by the FERC. Neither Arkansas nor Louisiana was ever allowed to consider the economic need for the plants.. The representation to the Mississippi Public Service Commission (MPSC) was apparently that Mississippi would be responsibile only for the share of the Grand Gulf plants as needed in Mississippi. If all of the operating companies contract with MSE on "a take or pay", or "come hell or high water" basis, that they will buy power regardless of the cost of the plant, at the rate set by FERC, then there is an evasion of the traditional state regulation of a utility company's decision to make massive commitments to the order of hundreds of millions of dollars per year without state approval. The Arkansas Public Service Commission along with the other Arkansas parties including AP&L, the Arkansas Attorney General, a coalition of Arkansas Industries, Arkansas Municipalities, and the Arkansas Congressional Delegation argues that FERC cannot under the Federal Power Act require a state utility to buy power, especially when the utility did not need and does not want to buy that capacity. *If* there is a gap in the federal power legislation it is a serious gap which evades the intent of permitting state PSC's to protect rate payers from unreasonable investment policies of utilities.

Energy cost is *the* most important factor which to manufacturing businesses consider in deciding where to locate, according to the "Business Climate Study for 1982" of the Alexander Grant & Co., Certified Public Accountants (Page 23). Energy costs rank ahead of wages, unionization, vocational educational enrollment, education, taxes, debt, population density and all other factors for the manufacturing sector in location decisions according to a survey of the Conference of State Manufacturers Associations, which are in large measure the state chambers of commerce. Energy costs are approximately 8.8% of the weighting of the decision to locate in a state, followed next by wages at 8.1%, unionization at 6.4%, WCI rates at 6.2%; all other of some two dozen other factors are less than 6%. "Only one state, Louisiana ($1.90) had energy costs of less than $2 per million BTU's for manufacturers" (Page 19). In fuel and electric energy costs per million BTU's for manufacturers, Arkansas ranked *fourth out of the four states* in the South Central Region; Louisiana was #1 in the nation in attractiveness to manufacturers in 1982 for energy costs. In overall attractiveness of the 1982 business climate study, Arkansas ranked 18th, ranking behind Louisiana (12th), Mississippi (9th), Texas (2nd), Tennessee (13th). Arkansas' 1982 fuel and electric energy costs per million BTU's for manufacturers was $2.85 per million BTU's while Louisiana's was $1.90. There is thus a good deal of evidence that Louisiana, which has been enjoying lower utility rates for manufacturers and, therefore, a more attractive climate for persuading manufacturers to locate in Louisiana, has realized that that situation would change drastically as their Waterford and Grand Gulf plants are built. Thus Louisiana seeks to burden Arkansas' attractiveness to manufacturers even further.

In adition to manufacturing, the agricultural industry in Arkansas is very sensitive to energy costs. Agricultural statistics for 1982, according to the Census Bureau indicate that:

> the number of medium sized farms shrank...farmers with medium sized operations are being squeezed out. As for production costs, the census reported that the cost of energy and petroleum products to Arkansas farmers increased by 58.4% in the four year period (faster than inflation in land, fertilizer, and chemicals). (Arkansas Democrat, September 9, 1983, page 1B)

Arkansas leads the nation in rice production, with 37% of the total national rice production. Rice must be irrigated and irrigation requires energy, usually electric.

The higher electric rates for residential consumers in Arkansas as compared to Louisiana, both before and after Grand Gulf, is also demonstrated in the table below.

WHAT YOU'LL PAY
RESIDENTIAL RATES FOR 1000 KWH ELECTRICITY

	AP&L		LP&L*	NEW ORLEANS PUBLIC SERVICE
	Summer	Winter		
Now	$91.32	$77.27	$61.09	$65.06
Full Increase of Grand Gulf	$134.66 (+47%)	$121.39 (+57%)	$105.14 (+72%)	$112.59 (+73%)
Phased in effect of Grand Gulf	$116.28 (+27%)	$103.01 (+33%)	$92.13 (+51%)	$70.71 (+9%)

*Includes Waterford for LP&L

Sources: Arkansas: Calculations of PSC Staff from testimony filed by AP&L in 84-249-U

LP&L & NOPS: New Orleans Times Picayune, December 3, 1984

Arkansas Power and Light just filed a retail rate case with the Arkansas Public Service Commission seeking an increase of some $460,000,000 in rates (approximately $200,000,000 in the base case, and an additional increase of approximately $260,000,000, depending on the share of Grand Gulf ultimately apportioned to Arkansas Power and Light). This would result in a rate shock of 27% to 33% in September, 1985, followed by other increases in subsequent years. But this "first year, first round" rate shock is only the beginning; there are secondary and tertiary rate shocks which would result as well due to "price repression of demand," (also called "price elasticity"). There are a number of studies which indicate that when prices go up, consumers, (industrial, commercial and residential) cut down on the consumption of electricity in order to save money. There is some indication that over 2 or 3 years, there is a one-for-one reduction; that is, if rates go up by 30%, the quantity of electricity consumed goes down by almost 30%. This leads to the utility coming in for further rate increases because utilities seek to recover - and are entitled to recover according to U.S. constitutional law - a return on their investment equal to that of industries of like risk in the competitive sector. If there are fewer kilowatt hours being sold, while fixed costs remain the same, the utility seeks a rate increase in order to recover lost revenues resulting from fewer kilowatt hours being sold. If consumption goes down by 30% that could then lead to a further rate increase of 30% again, (30% + 30% = 60% above present rates) which would in turn lead to a further decrease in the quantity of electricity consumed of 30%, which would in turn lead to consequent increases of 30% again (30% + 30% + 30% = 90% above present rates), etc. This is a vicious cycle resulting from the paradox of conservation, i.e. if any individual cuts down on consumption, then he saves dollars. However, for the state as a whole, if everybody cuts back on consumption that leads to further rate increases so that the total dollar amount paid for electricity remains the same though consumption is cut back.

"Price repression of demand", or "price elasticity" responses vary among sectors of the economy. The industrial sector cuts consumption greatest and the quickest in response to price increases. The commercial sector responds to a lesser degree and a little more slowly. The residential sector is the slowest to respond and can cut back least of all. A recent study by the National Regulatory Research Institute ("Commission Treatment of Over-Capacity in the Electric Power Industry, September 1984"), averages 19 studies of price elasticity involving all sectors and six studies of the elasticity for the industrial sector. They find that the overall elasticity is -0.92 and the industrial elasticity value is -1.01. Thus, using the average of 19 studies, they find that a 30% increase in overall price causes a 27.6% decrease in overall kilowatt hour demand, and a 30% increase in industrial price causes a 30.3% decrease in industrial kilowatt hour demand. Demand or price elasticity is defined as the percentage change in the quantity consumed that is induced by given percentage change in price.

Consumers will either cut down on their usage or "vote with their feet," i.e. some industrial users will leave the state or alternatively not come to the state when they might have otherwise done so. Some marginal commercial consumers (small businesses) will probably leave the state where otherwise they would have remained.

In addition to the considerable economic consequences to the state, leaving aside the political consequences which I will address later, there are significant economic and political effects on other states as well. If the Federal Energy Regulatory Commission affirms the policy recommended by Administrative Law Judge Ernest Liebman, then they will have established a national policy providing for regional averaging of prices of electricity across state lines. Such a policy would significantly

significantly reduce states rights and represent a move toward nationalization or centralization of the setting of electric rates, taking away a traditional state function. If a multi-state holding company is allowed by the FERC to evade the requirements of state siting laws (which have existed in Arkansas since 1973) before building power plants, then the national government will have announced that it not only permits but encourages the evasion by utilities of any scrutiny of economic necessity. No federal agency examines the need for power plants. But moreso, states will be very hesitant to permit or to encourage their utilities to participate in multi-state holding companies and in multi-state power pools if, in so doing, they may find that their low cost plants are, in effect, seized by higher cost states. There will be a great hesitancy from PSCs to approve power pools and construction of new plants if the plants that were built in their states, and paid for by their ratepayers, are no longer owned by their state utility, but instead are under common ownership, i.e. "socialized" by other states. That would have a serious dampening effect on the inter-ties of utilities, at a time in which there is significant excess capacity in most of the country. The NRRI study found that in 1982, electric industries in the United States had a reserve margin of 57%, while some experts contend that a reserve margin of 20% is sufficient to have reserves to meet unusual demands in the summertime and outages of plants. In other words, the electric industry in the United States in 1982 had approximately 37% excess capacity. While there is excess capacity in most of the country, as seems evident, there are small pockets that are short of capacity. Therefore, a national policy that dissuades inter-ties will be wasteful and will lead to building additional capacity in some areas, even though there is excess capacity nationwide. Thus the fear that "tying-in" will lead to higher rates in a state than they otherwise would be, is inefficient to the country as a whole.

How did we get into this situation? The "How?" and "When?" questions deserve more than the time and space allotted today. A very brief history of the developments of the Middle South System involving AP&L, Middle South Energy, Grand Gulf and Waterford is attached as Appendix A to this statement. Hopefully the Small Business Committee or any appropriate Senate committee can conduct hearings on whether the ills of Public Utility Holding Companies have grown to the point that the disadvantages now outweigh any advantages.

What are the possible solutions to the difficulties of high cost nuclear plants for small businessmen and farmers in the 50 states? I'll speak generally rather than specifically because some of these issues may come before the PSC. I want to be very clear that neither I nor my fellow Commissioners have reached any conclusions; but I will speak about possible and probable reactions of state commissions around the country to similar situations. Almost certainly there will be some efforts beyond ratepayers paying higher rates for plants like Grand Gulf and Waterford including, stockholders paying some of the costs under excess capacity or prudency arguments, and an effort to sell excess capacity either "off the system" or "on the system". Let me speak about each of these in turn.

Ratepayers can expect to pay some additional rates for nuclear plants as they come into the rate base. However, there will be a tendency for commissions around the country to seek to phase-in rates over three, five or ten years to avoid extreme rate shocks on the order of 30% or 50%.

In a number of jurisdictions, Commissions are examining whether stockholders should pay some of the substantial costs of construction, particularly for plants in systems where there is excess capacity. The National Regulatory Research Institute (publication listed above) gives some 16 options for dealing with excess capacity, some of them with three or four variations, including disallowing some or all of the excess capacity, and/or phasing-in the excess capacity. (See Appendix B) There will be efforts in some states to look at the prudency of construction of the plants, i.e. were they necessary in the first instance? Were they prudently constructed along the way? Were the initial decisions reexamined periodically to determine whether or not it was more beneficial to continue to construct them or to cancel?

AP&L was asked in a Docket of Investigation before the PSC, "has there been discussion within Middle South about stockholders paying some of the cost of Grand Gulf or Waterford?" The answer was "No". AP&L said that it would be unfair for stockholders to pay because it is only fair that they earn a competitive return on their investment. AP&L further said that it is fair for ratepayers to pay because they benefit. Yet to be determined is whether or not there is any benefit to the Arkansas ratepayers from Grand Gulf and Waterford.

If Arkansas ratepayers are forced to pay for a portion of Grand Gulf and Waterford, then selling the excess capacity could ameliorate the impact. The sale of excess capacity would be either "off system" or "on system". Off system sales are sales in the short term, intermediate term, or the long term to other utilities who are intertwined with the Middle South system. The problem is that there are very few utilities that need capacity. The cost of the Grand Gulf and Waterford plants are very high relative to other alternatives for the purchase of capacity for other utilities. Sales of excess capacity "on-system", within the AP&L or Middle South Systems would depend on special encouragement or incentive rates to existing and new users to increase their consumption. Along with those incentive, or discount rates, would come an agreement that the provision of demand and energy would be "interruptible" when bought at a discount. If the marketing program were imminently successful and all of the excess capacity were soaked up in the next few years, it would also have to be understood that rather than build the next generation of multi-billion dollar power plants, the utility would have the option of interrupting the provision of electricity at various times, i.e. during the peak hours in the summer period in August. Present examples of interruptible rates are residential air-conditioning switches, the irrigation rates provided to farmers, and the Reynolds Metals contract. Reynolds, the largest customer by far of AP&L, has a contract that provides for lower or discount rates in return for accepting, with some forewarning, interruption at peak times.

In addition to the severe economic threat of Grand Gulf and Waterford to Arkansas businesses and farmers, there are also severe political consequences of Grand Gulf and Waterford if Arkansas ratepayers are forced to pay for them. Attached to this statement are copies of petitions circulated in two very different sections of the state -- one across the northern half of Arkansas, the other in the southern half. There are 6,500 signatures on the North Arkansas petition, and 14,500 signatures on the one circulated in Southern Arkansas. In addition to those 21,000 signatures, the Public Service Commission has received both written and oral comments from a wide variety of business and agricultural people around the state, saying in effect, "I'm mad as hell and I'm not gonna take it anymore." That includes people in the real estate business, a McDonald's dealer with three franchises in Arkansas, and a small grocery owner in Lepanto, among others. A farmer told me that anything like a 30% rate increase "would set Arkansas agriculture back into the Dark Ages...we are trying to equalize yields to increase productivity by irrigating; we won't be able to compete if the rates go up in any magnitude at all." One political and economic consequence of significant electric rate increases will be the disappearance of small businesses that are now competing with national chains. For example, we might see the disappearance of "Mom and Pop" grocery stores and hamburger stands because as electric rates go up, larger firms will conserve by making substantial conservation investments, but small operations with only one or two locations will not be able to so do. In my 14 years in Arkansas politics, I have never seen an issue which poses as great an economic threat to the state of Arkansas, or one which has had such widespread public reaction and understanding. I suspect that that understanding will be much greater if electric rates in Arkansas increase because of the high cost of Grand Gulf and Waterford and the intertwinings of AP&L and the Middle South System.

Best wishes in dealing with a major threat to small business and agriculture in Arkansas.

Appendix A

MIDDLE SOUTH, AP&L, FERC, AND GRAND GULF

Middle South Utilities is a Holding Company for AP&L, MP&L, LP&L, New Orleans Public Service (NOPS), plus Middle South Energy (MSE), Middle South Services (MSS), System Fuels, Electech.

History:

1920's - consolidation of small independent companies into AP&L, which was in turn owned by a Holding Company - Electric Power and Light - (predecessor to Middle South Utilities). Electric Power and Light was organized as a holding company in Maine in 1925, and owned AP&L, MP&L, LP&L, NOPS, and United Gas.

Electric Power & Light was in turn held (owned) by Electric Bond and Share - a "super holding company" or "holding company of holding companies."

1935 - As a result of problems with holding companies the Public Utility Holding Company Act (PUHCA) was passed which gave to the SEC the power to abolish holding companies which were not in the public interest and to regulate all remaining Holding Companies (HC).

Problems:
1) Holding Companies were beyond state regulation
2) Milking of Operating Companies (OC) by Holding Companies: taking out dividends greater than earnings, unreasonable charges for management services.
3) Overlapping directorates.

4) Pyramiding (HC of HC) so overly leveraged; e.g. control $5 billion with $10 million in equity, but if earnings went down, one bankruptcy caused widespread collapse.

1935 - Federal Power Act: created Federal Power Commission to regulate interstate wholesale electric sales (which courts had held were beyond state regulatory control.)

1949 - Electric Power & Light reformed as Middle South Utilities.

1964 - Middle South Services created - to perform computer work for four OC's.

1967 - ANO 1 begun (completed 1974)

1970 - ANO 2 begun (completed 1977)

1970 - AP&L begins plans for GG1. (Grand Gulf 1) NOPS begins plans for what will become GG2 (Grand Gulf 2) (Each of three nuclear plants have become 14-17 year projects, at a cost of $3 - $4 billion each rather than $750 million.)

LP&L begins Waterford.

1973 - Construction begins on GG1.

February 1974 - Middle South Energy (MSE) formed at least in part because MP&L cannot finance GG1. New Orleans plant not feasible because of soil problems; shifted to Mississippi (MSE) and becomes GG2.

June 21, 1974 - Availability Agreement signed among MSE and OC's - provides a guaranteed market for MSE output; OC's agrees to pay cost of service; allocation to be on a floating or flexible percentage depending on need ("short" and "long" on capacity, i.e., "participation concept").

June 20, 1977 - First Assignment of Availability Agreement - MSE assigned rights to payments from OC's to banks in order to secure loans. AP&L, LP&L, NOPS, MP&L, sign assignment to banks backing up loans to MSE.

July 21, 1980 - Memorandum of Understanding signed by AP&L, MP&L, LP&L, NOPS, MSE; AP&L to receive 0% of GG.

June 15, 1981 - 2nd Amendment to Availability Agreement. Banks would not let AP&L out of obligation. AP&L accepts 17.1% of costs because that was an estimate of responsibility under floating percentage (participation concept), but separate agreement shifts that 17.1% to LP&L, NOPS, MP&L.

MSE looks to AP&L for 17% but AP&L ultimately responsible for 0% because other OC's agree to buy AP&L share (i.e., AP&L looks to other OC's to make whole through an indemnification agreement.)

November, 1981 - Reallocation Agreement - formalized Memorandum of Understanding (AP&L to receive 0% of GG). Signed by MP&L, LP&L, NOPS, MSE.

1982 - Unit Power Sales Agreement filed with FERC - Signed by LP&L, NOPS, MP&L, MSE. AP&L to receive 0% of GG.

1982 - System Agreement revision filed with FERC - dealing with payments among companies for short term sales of energy and capacity. Does not include system average costing. Signed by LP&L, NOPS, MP&L, AP&L.

1982-84 - Six Arkansas parties intervene in FERC Cases:

1. Arkansas Public Service Commission
2. Arkansas Attorney General
3. Arkansas Municipalities
4. Arkansas Industries
5. AP&L

6. Arkansas and Missouri Congressional Delegations

March-May, 1983 - Louisiana argues for smaller share of GG and for system average costing.

April, 1983 - FERC staff agrees with Louisiana Commission on system average costing.

February, 1984 - LP&L, NOPS, MP&L renege on support for contracts filed with FERC (Unit Power Sales Agreement & System Agreement).

February, 1984 - Administrative Law Judge (ALJ) Ernst Liebman in Initial Decision finds Middle South is not a coalition of independent operating companies (i.e., a confederation) - but instead a monolithic, unified "super utility" and rates should be the same throughout - holds AP&L responsible for 36% of MSE share of GG (90% x 36% = 32% of total)

1984 - Six Arkansas parties appeal to full FERC (5 members) - decision expected momentarily, certain to be appealed to U. S. Circuit Court of Appeals.

1984 - 1985? ALJ Daniel Head decision expected in next several months in System Agreement case.

1985? - GG1 expected to be operational March 1985.

Waterford expected to be operational March 1985.

GG2 on hold (1/3 complete). Decision to cancel or proceed is now pending.

APPENDIX B

PRINCIPAL REGULATORY OPTIONS FOR TREATING OVERCAPACITY (TABLE ES-1) COMBINED WITH RESULTS OF SUPPLY OPTIONS FOR TYPICAL UTILITY (TABLE 2-6)

Option	*Rank	*Cost/KWh for "typical utility" (¢)	% Increase # (Decrease)	Description
A. SUPPLY OPTIONS				
1. Full Exclusion				
a. New Plant	1	4.9	(-12.5%)	newest unit excluded from rate base
b. Least Efficient	11	7.1	+27%	least efficient units excluded from the rate base
c. Average Plant	9	6.7	+18%	excess capacity excluded at average cost capacity
2. Partial Exclusion				
a. % of New Plant	3	5.7	+2%	a percentage of the newest unit excluded from the rate base (50%)
b. 2:1 Cov. Ratio	8	6.5	+16%	rates are set so that interest: coverage ratio equals 2
c. Graduated	7	6.5	+16%	amount of exclusion tied to severity of overcapacity
d. Equity Only	4	5.8	+4%	return on only equity portion of plant excluded (i.e. debt payments included)
e. Constant Revenues	2	5.6	-0-	revenues required is unchanged (i.e. no rate increase; fuel savings go to capacity costs)
f. Imputed Sales	6	6.0	+7%	revenues spread over kWhs for full capacity use (assume sell excess; if do sell, revenues increase)
g. Carrying Costs				part of excess capacity carrying costs are excluded
3. Full Recovery				
a. Traditional	12	7.2	+29%	all capacity included in rate base in traditional manner (47% increase)
b. Phase-in	5	5.9[1]	+5%[1]?	capacity phased into rate base with full recover of value
c. Trending	10	6.9[1]	+23%[1]	new capacity included with mortgage- type depreciation (i.e. flat or constant payments; "decelerated" depreciation expense)
B. DEMAND OPTIONS				
1. Bulk Power Sales				extra capacity used for sales to other utilities
2. Price Reduction				
a. Flat Reduction				all rates for all customer classes are reduced
b. Time-of-Use				off-peak, industrial rates are reduced
3. Marketing				create marketing office & strategy; advertise

Source: NRRI Commission Treatment of Overcapacity in the Electric Power Industry, pages V & 27-51.

[1] First year only for "phase In" and "Trending;"

*for "typical" utility in NRRI model; results depend importantly on assumptions.

from base case of 5.6¢/KWh

14,500 Signatures on these petitions

RECEIVED [illegible]
JUN 1 4 1984

PETITION

WE, THE UNDERSIGNED, OPPOSE THE DECISION OF JUDGE ERNST LIEBMAN OF THE FEDERAL ENERGY REGULATORY COMMISSION (FERC) WITH REGARD TO THE ALLOCATION OF COST TO ARKANSAS FOR A NUCLEAR FIRED ELECTRIC GENERATING STATION IN THE STATE OF MISSISSIPPI.

	NAME	ADDRESS
1.	[illegible]	524 [illegible]
2.	Wanda Libbotte	2 Highland Lane E. Camden
3.	[illegible]	[illegible] Camden
4.	[illegible]	1460 Park Dr Camden
5.	Marie Hursey	341 Buchanan Camden
6.	[illegible]	
7.	[illegible]	
8.	Elaine Nickeson	328 [illegible] St Camden Ar
9.	[illegible]	[illegible] Camden Ar
10.	Freddie L [illegible]	609 Lear St Camden ark
11.	Corrine C Davis	525 [illegible] St Camden Ark
12.	[illegible]	1016 [illegible] Camden
13.	[illegible] Sloan	Rt. 2 Box 1372 Camden, Ark
14.	Billie [illegible]	
15.	Fannie Albert	413 Myrtle St Camden ark.
16.	Priscila Holcomb	409 [illegible] St Camden Ark
17.	J. C. [illegible]	601 [illegible] Camden Ark
18.	Mrs. M. C. Johnson	231 Johnson, Camden, Ar
19.	Mrs. Ethel Mae Davis	609 Lear St Camden Ark
20.	[illegible]	2606 [illegible] St. Camden Ark.
21.	[illegible]	150 J. F. K. Blvd Camden ark.
22.	Milton Gorring [illegible]	701 [illegible] Ave. Camden Ark
23.	[illegible]	517 [illegible] Camden Ar
24.	Ellis [illegible]	517 [illegible] Camden Ar
25.		

6500 Signatures on these

Appendix D.

PROTEST PETITION

Against Higher Electric Rates

We, the citizens of Arkansas, oppose paying higher utility rates for the construction of the Grand Gulf Power Plant in Mississippi which will not be used by Arkansas residents.

Name	Address	City	County	Zip
Edward R. [illegible]	Rt 1 B7C	Cave City	Independence	72521
[illegible]	HC 51 Box 47A	Sulphur Rock	Ind	72579
[illegible]	[illegible]	[illegible]	Ind	[illegible]
[illegible] Hall	[illegible] 95-D	[illegible]	Ind	[illegible]
[illegible]	[illegible]		Ind	[illegible]
[illegible]	Rt 5 Box 131-1 HS	[illegible]	Cleburne	72543
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wanda GRAY	P.O. Box 21	SulphurRock	Ind.	72579
Charles Cannon SR.	P.O. Box21	Sulphur Rock	Ind.	72579
Julia [illegible]	[illegible]	[illegible]		
MARGARET [illegible]	STAR RT., Box 8	[illegible]	Ind.	72524
John [illegible]	Rt 3 Box 25A	Cave City	Sharp	72521
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Cave City	Sharp	[illegible]
[illegible]	[illegible]	[illegible]	Independence	72556
[illegible]	[illegible]	[illegible]	Cleburne	72550
Billy J. [illegible]	Rt 255 - Box 51A	Charlotte	Independence	72522
Barbara [illegible]	Box 14	[illegible]	Independence	72575
Doug [illegible]	"	"	"	"
[illegible]	Box 56	[illegible]	Ind	72576
[illegible]	[illegible]	[illegible]	Ind	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	405 [illegible]	Heber Springs	AR	72543

STATEMENT OF

LARRY JEGLEY

STAFF ATTORNEY

ARKANSAS PUBLIC SERVICE COMMISSION

TO

U. S. SENATE

COMMITTEE ON SMALL BUSINESS

"THE EFFECT OF GRAND GULF ON

SMALL BUSINESS AND AGRICULTURE IN ARKANSAS"

DECEMBER 7, 1984

I appear before this committee to speak as counsel for the Staff of the Arkansas Public Service Commission, and not for the Commission itself. Our role in the regulatory process is to serve as a proxy for a competitive marketplace in the public utility industry in Arkansas. As such, we ask ourselves numerous questions as we go about our job of regulating in place of competition.

For example, "what if" Arkansas Power and Light Company were allocated a share of the Grand Gulf Nuclear Plant and rates to farmers and small businessmen increased by a third or more? The answer comes to me unsolicited from ratepayers across Arkansas, and on a daily basis. Just yesterday I heard from a young man whose family farms near Carlisle. He, like many other farmers who have contacted our Staff, is gravely concerned about the effect of electric rates for his rice well pumps. I asked him what would happen if, say, rates increased by 20%. His immediate response, and I quote, was "it's gonna wipe us out." He went on to say that "rural Arkansas is in a depression, and it's getting worse; something has to be done soon." He invited me to come sit at the cafe or go to some farms with him some day and talk to other farmers in east Arkansas, and guaranteed the same assessment of the situation.

Many farmers have simply "parked" their wells because they can't afford the electricity to run their pumps. Many others have indicated that they will build reservoirs and convert to diesel-powered pumps --- if they don't go bankrupt first. There is no doubt in my mind and the collective mind of the PSC Staff that the Grand Gulf fiasco could break the backbone of the Arkansas economy --- our farmers and small businesses. The farmers and businessmen of Arkansas are a resilient bunch, and have weathered a lot of plagues like depressed markets, drouths, floods, high interest rates, and gross inflation, to name a mere few. How much more can they take? I think very little. If the Staff of the Arkansas PSC has its way, Middle South Utilities won't succeed in collecting one penny of reimbursement for the Grand Gulf boondoggle from our fine businessmen, farmers, or anyone else in this state. If we are not successful, the very essence of this state's economy will be intolerably burdened.

The effect of the burdens already being shouldered by our citizens shows up dramatically with small businesses in towns across Arkansas; many are struggling to the point of selling out, taking bankruptcy, or closing their doors forever because folks can't keep their accounts current. These are people, I might add, who historically always pay their bills in full and on time and would sacrifice in order to do so. I think it is obvious that even "modest" rate hikes occasioned by Grand Gulf would further and unnecessarily damage our already beleaguered farmers and small businessmen.

Who is responsible for this? Not Arkansas Power and Light Company, which I might add employs some of the finest and most unselfish citizens in this state. AP&L is perhaps as much a victim of the Grand Gulf situation as are farmers and small businessmen. Who's to blame? Middle South Utilities, a holding corporation which owns all of AP&L's common stock, is headquartered in Louisiana, and employs only a few people, but controls, manipulates and abuses its subsidiary, AP&L, in an historically relentless pursuit of only one thing: increased dividends. MSU does not care who pays for Grand Gulf, only that somebody pay, be it Arkansas farmers, retired people on fixed incomes, or struggling small businessmen. MSU simply doesn't care about the ratepayers of Arkansas, and has absolutely no intention of asking its shareholders to pay for even one cent of the Grand Gulf fiasco.

AP&L, in turn, is really between a rock and a whirlpool in this situation. While serving as one of the most prominent corporate citizens in this state, they nevertheless must dance to the Middle South Utilities tune, which in my view may well be a swan song for Arkansas farmers and small businessmen. So long as MSU is pulling AP&L's corporate strings, the PSC and others like you who are concerned about our state's economic survival must be vigilant. Middle South Energy, Inc., the dummy corporation existing only on paper which was contrived to own and operate Grand Gulf beyond the watchful eye of state Commissions, is a perfect example. MSE and MP&L breezed into a hearing before the MPSC about a decade ago, and in roughly ten minutes walked away with approval for Grand Gulf. Nobody ever asked the Arkansas Commission what it thought about the matter, and a Federal Court recently agreed with MSU and MSE that asking Arkansas was unnecessary. MSU has, pending appeal, successfully end-run state regulatory commissions to the detriment of all ratepayers.

MSU currently has generating capacity which is more than sufficient to meet the needs of its subsidiaries' customers. This is because MSU has almost always been wrong on the high side in forecasting demand growth and has approached its construction programs with the attitude that everything is done on a "cost-plus" basis. As a result, MSU has permitted and perhaps indirectly fostered waste, imprudence, mismanagement, and cost overruns. The corporate attitude has always been that the ratepayers will pay regardless of the follies of MSU management. The thing that is really galling is that AP&L itself has reserves that are more than twice what the MSU system allegedly strives for. Native generating capacity in Arkansas could, in Staff's view, carry this State into the next century with proper load management and conservation efforts. Therein lies the outrage of Grand Gulf: we do not need it now and likely will not need it, ever.

Generation additions, and rates therefor, by AP&L should rightly remain under the jurisdiction of the Arkansas PSC --- not the Federal Energy Regulatory Commission. The Reagan administration has called for more local control over government affairs --- Mr. Reagan carried this state by a large majority last month --- yet in my personal opinion we have seen little action to remedy the Grand Gulf mess. In fact, the only concern I know of is Energy Secretary Donald Hodel's appearance before the Mississippi Public Service Commission, at MSU's invitation I might add, to support construction of more nuclear plants. In my personal view it's time states' interests were paid more than lip service by the Federal government.

In conclusion, let me observe that the Arkansas Public Service Commission Staff is dedicated to seeing that all our people --- including of course farmers, small and large businesses, and senior citizens ---

never have to pay for the outrageous, unjustified, and unneeded Grand Gulf Nuclear Plant. While AP&L may propose things such as "phased-in" rates to lessen the impact of an adverse FERC decision (and we applaud their attempts to minimize the impact), the PSC Staff feels such measures would merely insure a slow and painful strangulation of our economy, a prolonged agony at best. We need your help and support, because fighting this issue alone here in Arkansas conjures up images of David and Goliath; I assure you that the PSC staff does not feel much like Goliath. Our intentions are clear; our resources, however, are limited. The more help we get from every resource, the better our chances for success.

The Staff of the Arkansas PSC is grateful to Senator Bumpers for providing us this opportunity.

Senator Bumpers. Let me say to all the panelists who are here, I'd like to get through about three of these panels, if I could, before we recess for lunch, say, around 12:30. We're getting down to the people whom I'm really anxious to hear from; and hopefully, if we can get through three of the panels before lunch, that will be very helpful to us. I don't mind how late I have to stay tonight, but I know some of the panelists, who are going to be late this afternoon, are probably going to have a difficult time staying late, so we'll try to accommodate all of them.

These first four witnesses, I think, have set the stage for the remaining testimony, and I again want to thank all the panelists for their patience in coming this morning. We'll try to move right along now, with the impact of these possible decisions on small businesses and the farmers.

Our first panel consists of John Amos, who is general manager of Reynolds Metals; Richard Bell, Riceland Foods; and Ron Bailey, Producers' Rice Mill. If you gentlemen will have a seat up here, we'll commence.

Good morning, Richard.

STATEMENT OF JOHN AMOS, GENERAL MANAGER FOR ENERGY RESOURCES, REYNOLDS METALS; RICHARD BELL, RICELAND FOODS; AND RONALD BAILEY, PRODUCERS' RICE MILL

Mr. Amos. Please permit me, Senator, to correct something. I might cause ripples in Richmond if it was known that I was general manager of Reynolds Metals Co. I'm general manager of energy resources for Reynolds.

Senator Bumpers. I would never deny anything like that if I were you, John. [Laughter.]

Mr. Amos. Senator, my name is John Amos, and I am responsible for energy resources for the company; my office is in Richmond.

Reynolds Metal Co. presently operates four facilities in the State of Arkansas; a fifth facility, which is at Hurricane Creek, is presently being phased out and will be closed. Two of our operating plants, the Arkadelphia and Jones Mills reduction plants, produce aluminum ingot; the Hot Springs continuous casting plant produces aluminum sheet from which aluminum foil products are produced. The fourth facility is the Malvern cable plant, which produces electrical cable mainly for overhead transmission of electricity.

At full production, our annual payroll for these four plants is approximately $69.5 million. We believe our total local impact in the form of State and local taxes and in local purchases is approximately $215 million per year. At full production we employ around 1,900 people.

The electricity supplier at all of our locations in Arkansas is Arkansas Power & Light, and at full production our annual power bill to AP&L is slightly in excess of $100 million. Electricity accounts for about 30 percent of the cost of producing primary aluminum, and therefore aluminum is produced only in those areas of the world where electricity is both economical and reliable. We have produced aluminum in Arkansas since the 1940's.

The making and selling of primary aluminum has really become quite competitive in the last few years. Just a few years ago there were only a handful of companies producing aluminum; today, there are about 80 companies worldwide that have aluminum smelters, and about 40 percent of them are under Government control. Those smelters run all the time to create jobs and to earn hard currency without much concern for free market forces. Many of these new smelters, of course, are located in areas of the world where there is hydropower and low-cost coal.

Given this increase in offshore subsidized competition, one of the most important considerations of when and where aluminum will be produced domestically is the local power rate. A smelter with a power rate that makes its aluminum more expensive than that supplied by other world producers will have a great deal of difficulty in our present world situation because there's nowhere else that you can buy less expensive power; you can't move that plant to other suppliers. Given such a situation, a plant at best becomes what we call a swing plant in that it operates during good economic times, and during bad economic times it doesn't.

During the past recession, our plants with the highest energy costs went down first. Presently, our power costs are the lowest in New York State, and the primary plant located in upstate New York continues to run at full production. Our highest power costs are in Alabama on the TVA system, and our reduction plant there is operating at 44 percent.

We are extremely concerned about the outcome of the two FERC cases involving Middle South and, of course, the potential impact that those cases will have on Arkansas operations. We are very encouraged by the support and the effort that has been expended by the Arkansas congressional delegation, by Governor Clinton, and his people, by Dr. Johnston, and his staff, the Attorney General's Office, other industrials, and AP&L. I think all of us have an interest in protecting all Arkansas ratepayers from Grand Gulf and from Middle South.

We are committed to do all we can to win the cases before the FERC and in the court battles that are certain to follow. I think all of us recognize that, given the dollars involved, the cases are going to be appealed, regardless of the outcome.

As a measure of Reynolds' commitment, it should be noted that so far this year we have spent over $220,000 in outside legal fees, not counting considerable staff effort within the company, on the FERC cases alone. And, of course, other industrials within the State have made similar commitments and are working with us. We are doing everything we can to stay in the State of Arkansas and to provide good, reliable employment for our people.

I'll try to answer any questions, Senator, that you might have.

Senator **Bumpers**. That was an excellent statement, John. Thank you very much.

Richard.

Mr. **Bell**. I also appreciate having the chance to be here, Senator, and to participate in the hearing. I have to admit that at first I was a bit uncomfortable coming to a small business hearing considering the size of our business at Riceland Foods, but I would point out that the members that we serve are basically small business units and our organization itself is made up of a number of units which, in fact, are small businesses.

As you are well aware, we are the marketing agency for many of the farmers in Arkansas, particularly those in the eastern part of the State. We generally handle about 90 million bushels of grain a year, including roughly half of the rice crop and about a quarter of the soybean crop. Our sales generally run around $620 million a year, and about half of those sales are for export. I think it is important that we remain competitive, not only with the other regions in the United States, but also on an international level.

We operate a number of facilities that are necessary to the marketing of the crops delivered by our farmers, including six rice mills, two parboiled plants at Stuttgart and Jonesboro, a soybean processing plant and soybean oil refinery in Stuttgart, and 37 grain elevators and grain storage facilities scattered throughout the State of Arkansas.

Energy is one of our major costs of operations. Last year we spent about $8 million for electric power, most of it from the Arkansas Power & Light Co. Because of the importance of energy not only to our own operations but also to our farmers, we have followed the *Grand Gulf* case and related issues very closely. In fact, I am one of the few people who traveled to Washington earlier this year to present testimony before the FERC administrative law judge regarding the other case, which is still pending before the FERC.

We see the present FERC ruling regarding the *Grand Gulf* case affecting our members and our organization in two ways. We see it raising the costs of electricity for our farmer members who pump water to irrigate the rice and soybean crops, and we believe this is particularly important to our rice growers on the Grand Prairie who already have a problem with water compared to other rice-producing regions in the country. And, of course, our headquarters is on the Grand Prairie; we have a major commitment to that area, and we are interested in making sure that it continues to be a viable, competitive area in the rice business.

We also see the *Grand Gulf* case, if it is allowed to go to completion, as raising our costs for milling rice; increasing our costs for soybean processing and soybean oil refining. The proposed increase would go a long ways in negating many of the costly energy-saving equipment that we put in during the past several years and would, in fact, affect our position, we believe, regarding the other regions of the country that produce rice and soybeans.

I would remind you—I know there's really no need to—the grain business is very competitive, that a few cents a bushel may determine whether you do well or even survive. And it is important in our view that we do remain competitive.

We have spent considerable time on the case, have been involved with the other industries in doing the best we could to protect our position. I would have to admit, though, Senator Bumpers, that we have a tendency to be uncomfortable with this position that we're taking in the State of pursuing all-or-nothing results. We, in fact, would be supportive of some type of compromise, if it could be worked out, that would involve all the parties. I've had considerable experience with Government before I came to Arkansas, and while I've been here, and my feeling is that the chances of winning a case like the ones we're pursuing, perhaps the probabilities are not that high. We would be willing to look, and would be supportive of a compromise if we thought it was one that was fair and would spread out costs over a long enough period.

We, in fact, are more concerned about the other pending case before the FERC, in which a decision has not been rendered, than we are in the *Grand Gulf* case. This is the one that would have the averaging of some of the costs among the various operating companies of Middle South Utilities Holding Co. In our view, we feel that over the last decade or so, that AP&L has made some good decisions with regard to generating and marketing electric power. We feel they got into the nuclear plants at about the right time; we feel that they got into coal at the right time, and we do not consider this to be true of the other operating companies, or all the other opearting companies, within the Middle South Utilities system. We feel that the two FERC cases would, in fact, go a long ways to offset some of the good positioning that the AP&L officials have actually done for the State in the earlier years.

We do feel at the present time, compared to the other States where we consider ourselves to be competitive with, that our electric costs are in line. But if we would have to go along and absorb some of these costs in the other two cases, then we would have to be careful about how we go about it.

I would also finally say, Senator Bumpers, that we feel that this case really points out the need for a strong, competent Arkansas Public Service Commission. As we have studied the issues, there are certainly a lot of places where people have misstepped, and we feel that probably all prties involved in it have made mistakes some place or other. We do feel strongly that a strong PSC is important to us, not only to have very qualified commissioners, but the professional staff has to be also very competent. We are supporters of making sure that they have the resources, including the adequate salaries, to recruit and hold good people that are involved in that very important State agency.

We do consider this an important issue, and we appreciate having the opportunity to be here today and your calling the hearing. Thank you.

Senator BUMPERS. Richard, thank you very much for a fine statment and especially for your candor.

Ron.

Mr. BAILEY. Senator, I'm Ron Bailey, president of Producers' Rice Mill, Inc., headquarters at Stuttgart, drying and storage facilities in Stuttgart and Wynne, Wilson, Tyrimes (phonetically), and Marianna. Producer's and its subsidiary, PRM Energy, Inc., have sales in excess of about $100 million annually and we employ about 350 people. We serve about 2,500 farm families in mainly eastern Arkansas, as well as Missouri, Mississippi, and Louisiana.

As you know, and most others, since about 1980 east Arkansas farmers have ssen the value of their producers decline and the cost of production escalate. The strength of the dollar increased, and we really are completely priced out of the world market as far as rice is concerned, and some of the other farm products as well. We're not even close to being competitive in the world market with our product, and an increase in utility rates at the farm level could be the part of the final blow to the Arkansas rice farmer, not even considering the processing facilities that Dick's talking about the that we have.

Rice and soybeans, as Dr. Johnston mentioned, are generally irrigated crops. We made a little study recently about the cost of electricity to irrigate those two crops and, generally, you will find that its represents about 10 to 15 percent of the farmer's costs—10 to 20 percent, really, depending on whether it's a deep well or a shallow well. To irrigate rice or soybeans from a shallow well costs a farmer in eastern Arkansas approximately $40 an acre. If that has to be a deep well, it costs him twice that, $80 an acre, in his production costs. And that's——

Senator BUMPERS. Ron, what is a deep well? How deep is that?

Mr. BAILEY. Oh, generally around—between 700 and 900 feet. A shallow well would be up to about 200 feet.

You can readily see what a 50-percent increase in electricty rates would do to that farmer when he's not even competitive now. He can't really sell his crops in a fee market situation and even make a living. Producers' over the last 3 years, has been fortunate that we've developed and patented a waste-energy reactor where we are burning rice hulls to produce heat and steam for our process there in Stuttgart, and we've actually avoiding $1 million a year in natural gas costs. This kind of rate increase would completely nullify that $1 million a year savings that we have been able to achieve with this new development.

We have also on the drawing board, that will come into play very quickly, particulary if this decision is allowed to stand, whereby we will by able to generate up to 5 megawatts of electricity with this waste-energy reactor, and we intend to do that right there is Stuttgart.

Senator BUMPERS. Would that take care of all your electrical needs, that 5 megawatts?

Mr. BAILEY. Yes.

Senator BUMPERS. What percentage of your operating cost now, Ron, are electricity?

Mr. BAILEY. About 5 to 7 percent.

Senator BUMPERS. Would that be true of you too, Dick?

Mr. BELL. Yes. Yes; it would.

Senator BUMPERS. John, you mentioned New York as being the cheapest State for you, and Alabama as being the highest. How many States do you operate in?

Mr. AMOS. Basically, we're in New York; that's all hydro—excuse me, 90 percent hydro and about 10 percent nuclear. That's with the Power Authority of the State of New York. We have two plants in the Northwest, one in Washington and one in Oregon, on the Bonneville power system. We have one plant in Alabama that's on TWA, and, of course, the two plants here that are AP&L.

Senator BUMPERS. Why is TVA power so high? All of us here clamor for TVA electricity. I've been trying to get TVA to come across the river and serve West Memphis ever since I've been in the Senate.

Mr. AMOS. It's because TVA allocates of the advantages of hydro to the residential class of customers.

Senator **Bumpers**. So you get the rest?

Mr. **Amos**. That's right, sir.

Senator **Bumpers**. Where does Arkansas rank?

Mr. **Amos**. Arkansas right now would be next to the highest——

Senator **Bumpers**. Just under Alabama?

Mr. **Amos**. Yes, sir. We're talking power costs only.

Senator **Bumpers**. Yes.

Gentlemen, those are excellent statements. Even if we didn't have Grand Gulf to contend with, Members of Congress ought to do this periodically for their own edification.

Mr. **Bailey**. One thing I might add, with our waste burner we can generate electricity cheaper than Arkansas Power & Light can with their nuclear plants.

Senator **Bumpers**. Would that be hulls Ron?

Mr. **Bailey**. It might be any type of a waste product, cottonseed hulls, cotton gin trash, peanut hulls, petroleum coke, any type of an agricultural waste product, particularly, wood chips, sawdust, sander dust.

Senator **Bumpers**. If we win the *Grand Gulf* case, and as soon as they use up their excess capacity, we'll have them come down and see you.

Mr. **Bailey**. OK. [Laughter.]

Senator **Bumpers**. Dick, one other thing that Ron has just talked about. Is Riceland planning anything dramatic in the future to conserve energy? What would you do if we lose the *Systems* case, which is the most dramatic?

Mr. **Bailey**. We're going to sell him the burner. [Laughter.]

Senator **Bumpers**. Maybe you can buy power from Ron.

Mr. **Bell**. We had been involved in hull burners before, and ours has not been as useful as the one Ron has. We were an earlier generation of burners. We would agree that it still has got promise.

We've done part of the things that we feel need to be done to conserve energy and to get a better distribution of loads, and so forth. We still have, in our plans, intent to complete that program. I feel confident as time goes on that through technologies that will continue to come on stream, that will help us to conserve energy more. We will have nothing real dramatic, though, to do. It's more of a steady, slow progress of applying what's known today to consistently improve the conservation of energy.

Senator **Bumpers**. Gentlemen, thank you very much. I appreciate your testimony.

[The prepared statement of Mr. Bell follows:]

STATEMENT OF
RICHARD E. BELL
PRESIDENT AND CHIEF EXECUTIVE OFFICER
RICELAND FOODS, INC.

before the

SENATE COMMITTEE ON SMALL BUSINESS
LITTLE ROCK, ARKANSAS
December 7, 1984

I appreciate this opportunity, Mr. Chairman, to appear before the Senate Committee on Small Business and present Riceland Foods' views regarding the potential impact of the Grand Gulf nuclear power plant on the future cost of electric power in Arkansas.

Although Riceland Foods is a large business organization, Mr. Chairman, it serves many small-business units, namely farmer members, and the organization itself is comprised of many small business units.

Riceland is the marketing agency of many thousands of farmer members spread throughout Arkansas, southeastern Missouri, northwestern Mississippi, northeastern Louisiana and western Tennessee. Our job is to receive, store and process the rice, soybeans and other grains delivered to us by our farmer members.

Our grain receipts have averaged 90 million bushels a year during the past five years. We handle nearly half of the Arkansas rice crop and more than one-fourth of the soybean crop. We are also important marketers of wheat, milo and other feedgrains.

Riceland sales and revenues have averaged $620 million annually over the past five years. Approximately half of our sales are for export. It is important, therefore, that we remain competitive internationally as well as with other crop-producing regions of the United States.

The Riceland organization includes twenty-four separate corporate entities, including one marketing cooperative and twenty-three affiliated local grain drying cooperatives scattered across Arkansas and in southeastern Missouri and northwestern Mississippi. All operating units, however, are under a single management structure and I am the chief executive officer or general manager of all corporate entities and all operating units.

Riceland uses an array of facilities to market the crops delivered by our farmer members. We operate six rice mills and two parboil rice plants at Stuttgart and Jonesboro, and a soybean processing plant and soybean oil refinery in Stuttgart. We operate grain elevators and grain storage facilities at thirty-seven sites, mostly in Arkansas.

Energy is a major cost item in our operations. Last year we paid $8 million for electric power, most of it from the Arkansas Power and Light Company (AP&L).

Due to the importance of our electric power cost, we have followed construction of the Grand Gulf plant and related issues with intense interest. In fact, I am one of the few people from Arkansas who traveled to Washington to present testimony to the Federal Energy Regulatory Commission (FERC) regarding another case which also will affect electricity rates in Arkansas.

Riceland sees the present FERC ruling regarding the Grand Gulf nuclear plant affecting its members and organization in two ways. We see it raising the cost of electricity to our farmer members for pumping water to irrigate their rice and soybean crops. We believe this could be particularly devastating to rice growers on the Grand Prairie who already have a problem with water costs relative to other rice-growing areas in the state and other rice-producing states.

We also see it raising our costs for drying and milling rice, and for processing soybeans and soybean oil. The resulting increases from the Grand Gulf will partially negate the costly energy-saving equipment and programs that we have installed in recent years. Rate increases also would affect our competitive positions relative to other regions of the country as well as other rice and soybean-producing countries.

I would like to remind the Chairman that grain handling, processing and marketing is a very competitive business. A few cents per bushel can determine success or failure.

After studying the Grand Gulf case, Mr. Chairman, we conclude that there is some merit in the argument that the state of Arkansas is taking a large risk by pursuing an "all or nothing" position. We would urge all parties to work toward a compromise that would be fair and equitable for all concerned.

We believe that we can absorb the costs of a compromise solution if the costs are spread over an adequate time period. We would find it more difficult to absorb the costs implied by the present ruling of the FERC administrative law judge.

In the longer run, Mr. Chairman, we consider the other pending FERC case to be a more important matter. This is the one on which we are awaiting a decision. This case proposes the averaging of costs among the various operating companies of the Middle South Utilities holding company.

In our judgment, AP&L earlier made a number of good, sound decisions regarding the positioning of the company for the generating and marketing of electric power during the 1980s and beyond. The Arkansas nuclear plants were built at the right time. The move to the use of coal was made at the right time. As a consequence of these decisions, electricity rates in Arkansas are generally competitive with those elsewhere.

But all this good work will be lost if we are forced by the FERC to average AP&L's costs with the other Middle South operating companies, some of which did not make the same good, sound decisions of AP&L.

This intrusion by FERC into a matter that should be a state matter, in our opinion, has major implications with regard to Arkansas' long-term competitive position. We must make sure that the FERC does not prevail on this issue.

Mr. Chairman, I believe this entire matter points to the importance of a strong Arkansas Public Service Commission and staff. We believe funding should be made available to the PSC for adequate staffing of career professionals.

Senator **Bumpers**. Our second panel consists of Nicky Hargrove, who is president of the Arkansas Farm Bureau; Jack Cothran, American Agriculture Movement; Milt Thomas, Arkansas Farmers Union; and Cecil Williams, Agriculture Council of Arkansas.

Mr. **Chvotkin**. Cecil is unable to be here.

Senator **Bumpers**. Apparently Cecil Williams is not going to be able to be with us this morning; and Nicky, we'll do as we did before. We'll start off with the way they are on my list. You're listed No. 1; so if you would, please proceed.

STATEMENT OF NICKY HARGROVE, ARKANSAS FARM BUREAU; JACK COTHRAN, AMERICAN AGRICULTURE MOVEMENT; AND MILTON THOMAS, ARKANSAS FARMERS UNION

Mr. **Hargrove**. OK. Thank you, Senator, and good morning to all of you. I'm Nicky Hargrove, president of the Arkansas Farm Bureau, and we appreciate this opportunity to express and appear before this committee our interest and concern about the impact of the Grand Gulf nuclear powerplant on agriculture in Arkansas. Agriculture is a significant user of electrical power and it's appropriate, I think, that we examine the effect of the potential rate increases on this industry. We appreciate the members of the committee for conducting this hearing and your effort to resolve this controversy, and we would recognize the effort that you have made.

Our policy recognizes the importance of nuclear power generators and we certainly support their use. We also favor effective regulation of power rates and fair treatment of customers. Our membership has long supported the position that the production, transmission, and distribution of power should be a function of private enterprise.

It may not be pertinent to this particular hearing, but I'd like to inject it for the record, that at no time would we ever consider supporting any Government takeover of Arkansas Power & Light Co. In line with our belief in free enterprise, we feel that construction of generating plants should be financed by capital investment and not by increased customer rates. When a facility is in production, then quite certainly its costs should be passed on to customers.

We are particularly concerned with the prospect of paying for generating facilities which will not be shared, or may not be shared or utilized by the people of Arkansas. We are aware that the action taken by the Louisiana Public Service Commission was in behalf of consumers, but we respectfully submit that the people and industry of Arkansas are also consumers and deserve fair treatment.

We also point out that if, and I emphasize the word "if," if the unwise decision had been made on the part of AP&L for construction of generating facilities, then it's the responsibilities of the stockholders to bear the costs and not the consumers.

If Arkansans are forced to pay 36 percent of the Grand Gulf plant, it will have a serious impact on our farmers. For example, 40 acres of rice is the common unit size for an irrigation well. As Ron Bailey indicated awhile ago, it now costs about $1,600 for the electricity to irrigate that 40 acres of rice. Among the many factors that are under consideration, Grand Gulf would add roughly another $587. A 15-percent rate increase would add another $205. In total, the cost of irrigating 40 acres of rice would increase from $1,600 to roughly $2,385. And then we add the cost of systemwide averaging, which could raise the cost an additional $500 or $600.

So, stated another way, a farmer with 400 acres of rice, which is a good economical unit, could expect between $8,000 and $14,000 additional energy cost if Grand Gulf is charged to Arkansans.

Senator Bumpers. Just a moment there. Nick, if I may interrupt you there. When you say "Grand Gulf," does that also include the systemwide agreement? I think it does.

Mr. Hargrove. OK. The $8,000 would not——

Senator Bumpers. The $8,000 would be Grand Gulf, and the $14,000 would be——

Mr. Hargrove. The $14,000 would include all the proposals.

A broiler grower with 30,000 birds could expect his electricity cost to rise from $580 currently a year to about $1,020. That would be the rate increase from Grand Gulf. An additional $300 would be incurred if systemwide averaging was allowed.

Among those most affected by any decision would be the egg producer. A producer with 50,000 layers in Arkansas uses about 150,000 kilowatthours per year, which currently costs him about $6,950. The proposed rate increase would add $1,580 to this cost. Grand Gulf would add another 43,450. Systemwide averaging could add another $3,450, for a total cost of $12,000 to $15,000 a year. And this would be an increase to one egg producer of somewhere in the neighborhood of $5,000 to $8,000.

So I'm trying to be brief, Mr. Chairman, but I think you can see from these examples why Farm Bureau policy is against Arkansas ratepayers being charged with the cost of the Grand Gulf nuclear powerplant. It is unfair for Arkansans to pay for the capital investment of the plant from which the benefits are debatable, and we do recognize at this point that they are debatable. They would create a terrific hardship on farms, on the people, and on the industry of our State.

So, thank you again, sir.

Senator Bumpers. Nicky, thank you, and thanks for going to the trouble to get all those figures. That's really interesting information.

Mr. Hargrove. Thank you, sir.

Senator Bumpers. Jack.

Mr. Cothran. Thank you, Senator.

I am Jack Cothran, president of the American Soil and American Agriculture Movement. Senator, I farm about a 1,200-acre operation with my brother and myself, a family operation. We farm rice, about 400 acres of rice, soybeans, and wheat. To say the least, this would be a real blow to increase the cost of irrigation and various things on our personal operation.

The numbers of farmers whom I've spoken to in the last 2 weeks expressed the same thing, that any increase in anything, especially at the levels that are projected by AP&L or at the 50-percent level, would totally devastate a lot of people who are just marginally there anyway. Our costs, production costs, have gone up in all areas. This one would be certainly above any that we expect for the next year or so as we anticipate input costs for our next year's crops. We've got our own farm storage costs very much like the big facilities and the co-ops, like Dick Bell and Ron Bailey expressed awhile ago. We have large expenses, just on farm expenses, with our own grinding operation.

Electrical rates have increased steadily over the years. As you know, our commodity prices have continued to go down. There is no debate there at the sense of the shape of the farm community out there. It bothers me that it could even be considered to be a Federal decision. Most of the Federal decisions that are handed down that affect the farmers have always been to the negative side for the farmer, and I don't expect anything different than that.

The Governor made a statement this morning that interested me, that the Arkansas Public Service Commission or somebody who has a deciding voice in the State of Arkansas, who is close to the voters, need to be the people who make these decisions.

I would put this in the form of a statement, that the American Agriculture Movement at this time couldn't support anything that would raise the cost of production of crops when we are at such depressed levels as we are now. We would—short of saying that we would lose the total power source, say that certainly a negotiated settlement would be better than no electricity at all at a later date; but in 1990 is when these things would become feasible to us. I'm not so sure how many farmers here would be here to enjoy it anyway. So at this point, we couldn't support anything that would raise those costs, certainly as much as they're expressing here. That would conclude it.

Senator **Bumpers**. Thank you very much. That was a good statement.

Milt.

Mr. **Thomas**. Thank you, Senator.

I am Milton Thomas, president, Arkansas Farmers Union. I appreciate this opportunity you have given me to present a few remarks concerning the impact of the decision of the Federal Energy Regulatory Commission to require Arkansas Power & Light to pay 36 percent of the cost of Grand Gulf, and a large percentage of other new plants within the Middle South Utilities Corp., of which AP&L is one of its subsidiaries. If this decision is allowed to stand, it is estimated to cause AP&L electric rates to increase by 50 percent or more.

This kind of additional expense to our members, as well as other farmers and small businesses, would be devastating. In addition to greatly increasing their cost of living, it would increase the cost of doing business in farming and other small businesses.

Most of our farmers use a large amount of electrical power to irrigate crops, to dry crops, as well as other farming operations. Irrigation of rice costs, on average, over $40 per acre for electric power alone. With a 50-percent increase, this could very well force addiitional farmers out of business since most farmers are barely holding on under the present cost-price squeeze.

Arkansas is the No. 1 rice-producing State, and a large majority of the irrigation, drying, and processing is done with electrical power. A 50-percent increase in electric rates would be a terrible blow to the rice industry.

Some farmers are not served by AP&L directly, but the businesses they purchase goods and services from are customers of AP&L.

The increased cost for their utility will be passed along to their customers—Arkansas farmers.

Another source of electric power for farmers is the electric co-ops; yet, not all farmers are served by the co-ops. Some co-ops do purchase their wholesale power from AP&L. They would have to pass the increases along to the customers.

A large number of Arkansas farmers are part-time farmers and depend on second jobs to maintain their families and farm operations. A large increase as is predicted in the AP&L situation would drive many of these businesses out of business, thus eliminating the jobs so important to many Arkansas farmers.

I would like to make note of the similarity of the testimony this morning in regard to some of the points made, such as the cost of electrical power for farmers. In my study, as I've stated, on average irrigation of rice costs on an average of over $40 an acre. That study was done on shallow wells only, and Mr. Bailey, I believe, pointed out that some run as high as $80. That runs up in the neighborhood of 25 to 30 percent of the cost of producing rice, and that doesn't include drying and other electrical power that's needed in the production and processing of rice.

So it is very important to us in Farmers Union that this cost should not be passed on, since it was pointed out here that our rice product is priced out of the export market. Some would suggest that all you have to do is lower the price, but I might say this, that the cost of producing rice now is more than the export price of rice. So if the cost of production is increased, then it would hasten the flow of farmers out of the farming business because a lot are going out under the present circumstances.

That's about all I would have to say, Senator, and I would thank you very much.

Senator **Bumpers**. Milt, that's a good statement, and I thank you.

Let me ask all three of you, are there alternatives—for example, diesel or natural gas—for the operation of irrigation pumps? In other words, would it be economically feasible for farmers to convert to some other power source to operate irrigation pumps if we were going to sustain a 50-percent increase in power costs, for example?

Mr. **Hargrove**. At some cost of electrical power, yes, sir; it would become feasible. There's always a cost-benefit ratio. It's a pretty expensive project to convert from electricity to diesel units——

Senator **Bumpers**. Because most of them already have their equipment?

Mr. **Hargrove**. Right, most everybody is pretty well set up the way they are now. However——

Senator **Bumpers**. There are some diesel operations now, aren't there?

Mr. **Hargrove**. Yes, quite a lot. Quite a few.

Senator **Bumpers**. Nick, in the State what percentage of irrigation would you say is done with electrical pumps as opposed to any other power source? Would it be a vast majority?

Mr. **Hargrove**. Off the top of my head, 75 percent in our area, and 75 percent in the southern area.

Senator **Bumpers**. Do you think that would be about right, Milt?

Mr. **Thomas**. Probably so, yes; I think that's a good figure.

Mr. **Cothran**. Senator, there's an interesting thing about that, though; when fuel prices increase with diesel fuel and the cost to generate electricity, they're very similar except maybe when you're talking about nuclear or something. So when diesel prices increase, there's a certain inability to do any better either way.

Senator **Bumpers**. Yes; I know, prices have a tendency to follow each other. I understand.

Gentlemen, thank you very much for being with us this morning. I appreciate the testimony.

[The prepared statements of Mr. Hargrove and Mr. Thomas follow:]

STATEMENT OF NICKY HARGROVE, ARKANSAS FARM BUREAU

The Arkansas Farm Bureau appreciates this opportunity to express before this committee our interest and concern about the impact of the Grand Gulf nuclear power plant on agriculture in our state. Arkansas agriculture is a significant user of electrical power and it's appropriate that we examine the effect of the potential rate increase on this industry. We appreciate the members of the committee for conducting this hearing and your effort to resolve this controversy.

While our policy recognizes the importance of nuclear power generators and supports their use, we also favor effective regulation of power rates and fair treatment of customers. Our membership has long supported the position that the production, transmission, and distribution of power should be a function of private enterprise. Therefore, we cannot support any proposed takeover of the Arkansas Power and Light Company by the State of Arkansas. Also in line with our belief in free enterprise, we feel that construction of power generating plants should be financed by capital investment and not by increased customer rates. Only when a facility is in production should its cost be passed on to consumers.

We are particularly concerned with the prospect of paying for generating facilities which will not be shared or utilized by the people of Arkansas. While we are aware that the action taken by Louisiana Public Service Commission was in behalf of consumers, we respectfully submit that the people and industry of Arkansas are also consumers and deserve fair treatment. We also point out that if an unwise decision was made on the part of AP&L when entering into agreements with other Middle-South companies for construction of generating facilities then it is the responsibility of AP&L and its stockholders to bear the cost of that mistake and not the consumer.

If Arkansans are forced to pay for 36% of the Grand Gulf plant, it will have a serious impact on our farmers. For example; 40 acres of rice is the common unit size for an irrigation well using an electrical pump. It now costs about $1600.00 for the electricity to irrigate that 40 acres of rice. Grand Gulf would add roughly another $587.00 to that cost. And let's not forget the 15.3% rate increase requested in addition to Grand Gulf which will add another $205.00. In total the cost of irrigating 40 acres of rice will increase from $1600.00 to roughly $2385.00 and the cost of system-wide averaging could raise the cost an additional $500–$600. Stated another way, a farmer producing 400 acres of rice could expect between $8000 and $14000 additional energy cost if Grand Gulf is charged to Arkansans. Similarly a broiler grower with 30,000 birds can expect his electricity cost to rise from $580 per year currently to about 1020.00 if the proposed rate increase and Grand Gulf are both approved. An additional $300 in cost would also be incurred if system-wide averaging is allowed.

Among those most affected by the Grand Gulf decision will be the egg producer. A producer with 50,000 layers uses about 150,000 kilowatt hours per year with a current cost of $6950.00 per year. The proposed rate increase would add $1580.00 to his energy cost. Grand Gulf would add another $3450.00. While system-wide averaging would increase cost by still another $3450.00 for a total cost of roughly $12,000 to 15,400 per year. This would be an increase of $5000 to $8400 per year.

Mr Chairman and members of the committee, I think you can see from these examples why Farm Bureau policy is against Arkansas rate payers being charged with the cost of the Grand Gulf nuclear power plant. Not only is it unfair for Arkansans to pay for the capital investment in a plant from which they will receive no benefit, it would also create a terrific hardship on the farms, people and industry of our state.

Thank you again for the opportunity to appear before this committee.

Statement of Milton Thomas, President, Arkansas Farmers Union

I am Milton Thomas, president, Arkansas Farmers Union. I appreciate this opportunity you have given me to present a few remarks concerning the impact of the decision of the Federal Energy Regulatory Commission (FERC) to require Arkansas Power and Light (AP&L) to pay 36 percent of the cost of Grand Gulf, and a large percentage of other new plants within the Middle South Utilities Corporation of which AP&L is one of our subsidiaries. If this decision is allowed to stand it is estimated to cause AP&L electric rates to increase by 50 percent or more.

This kind of additional expense to our members as well as other farmers and small businesses would be devastating. In addition to greatly increasing their cost of living, it would increase the cost of doing business in farming and other small businesses.

Most of our farmers use a large amount of electrical power to irrigate crops, to dry crops, as well as other farming operations. Irrigation of rice cost, on average, over $40 per acre, for electric power alone, with a 50 percent increase, could very well force additional farmers out of business since most farmers are barely holding on under the present cost-price squeeze.

Arkansas is the number one rice producing state, and a large majority of the irrigation, drying and processing is done with electrical power. A 50 percent increase in electric rates would be a terrible blow to the rice industry.

Some farmers are not served by AP&L directly, but the businesses they purchase goods and services from are customers of AP&L. The increased cost for their utility will be passed along to their customers—Arkansas farmers.

Another source of electric power for farmers is the electric co-ops, yet not all farmers are served by the co-ops. Some co-ops purchase their wholesale power from AP&L. They would have to pass the increase along to the customers.

A large number of Arkansas farmers are part-time farmers and depend on second jobs to maintain their families and farm operations. A large increase as is predicted in the AP&L situation would drive many of these businesses out, thus eliminating the jobs so important to many Arkansas farmers. Thank you.

Senator Bumpers. Before we recess for lunch I'd like to combine the third and fourth panels here because some are not here, and ask James Duncan, Bettye Ann Cooper, Hays Sullivan, and Gene Sweat to come up at this time.

Is Tommy Hillman not here?

Mr. Chvotkin. Tommy is not here.

Senator Bumpers. And David's not here, and Ephron Lewis is not here?

Mr. Chvotkin. That's correct.

Senator Bumpers. OK.

James, you are No. 1 on the list, so I'm going to ask you, if you will, go first.

STATEMENT OF JAMES DUNCAN, ARKANSAS CATTLEMEN'S ASSOCIATION; BETTYE ANN COOPER, WOMEN INVOLVED IN FARM ECONOMICS; HAYS T. SULLIVAN; AND GENE SWEAT

Mr. Duncan. Thank you, Senator.

I am James Duncan, executive vice president of the Arkansas Cattleman's Association. It is a privilege to represent the cattle producers of the State of Arkansas in this hearing.

On behalf of the cattle producers in the State of Arkansas, I say thank you for taking time to come to Little Rock and listen to our concerns in this matter. It is always a welcome sight when government responds to the needs and desires of the people in a true public hearing forum.

It should also be noted in the outset that the Arkansas Cattlemen's Association feels that too often today committee hearings are held in Washington, and many times we hear the views of consumer groups trying to represent the views of people in absentia.

Many times these views, represented by so-called consumer activists, do not in any way represent the true feelings of consumers. Just because the people are not there should not be construed as representing their feelings. So again, thank you for coming to the people.

Any time there is a possibility of an increase in the cost of any tool used on the farm today it causes strain and anguish to the persons involved. The beef producers of Arkansas are already in a state of economic depression due to high input cost and their inability to pass on their cost increases in the products they produce. Energy and energy-related equipment is included in the cost spiral that has occurred on the farm.

The average age of a beef producer in Arkansas is 54 years of age, so the majority of our producers can recall the arrival of electricity to the farm. Those that can recall deemed it a privilege to have this great aid and management tool available on the farm. With electricity, farm families were brought into the mainstream of American life.

Many remember their first experience with electricity as a light over the kitchen table, where many an hour was spent after meals studying, talking, and preparing for the new and challenging world being opened up to farm families. Then memory can recall the refrigerator and other appliances including the saver of many a rural wife, the electric iron.

These are just a few of the things we can recall from the first use of electricity on the farm. Then we moved it outside to incoroprate as an everyday management tool to do things quicker, easier, and more efficiently.

Along with the technological advances made in agriculture production, producers have been able to bring food to the general public at a cost of 16 cents of their dollar.

Electrical tools and equipment in many forms that use electricity have been a part of this advancement. Put electricity in the perspective of a management tool and we can readily see that it is no longer a luxury, but a necessity.

With all the marvelous ways, then and now, that farmers use electricity, they have had to maintain a very close accounting for the management of this tool. As stated earlier, the farm community deemed it a privilege to have electricity, a privilege they were willing to pay for, and have through the years.

With cost of all energy going up and increasing cost on the utility companies, they have been allowed to pass cost through, calling it a fuel adjustment cost or surcharge. Beef cattle producers absorbed this cost of production.

In order to help the customers of AP&L pay for Grand Gulf, they want to phase in the cost on our bills. AP&L tells us this will reduce the rate shock. What we in the country have never been able to figure out is that once phased in, no increase is ever phased out. The real shock will come if this rate is granted and utilized, and there would be another obligation requested that we as users of electricity pay for.

On the farm today there are many extras that we pay for, such as demand meters, extra installation charges to reach out-of-the-way places. We pay because the electricity is needed; again, we absorb these costs.

We in the cattle-producing business have not been able to demand and receive the power to pass through increased cost of production to our consumers. I realize we must operate under a different marketing system. This system demands that we explore every new idea to determine if it would be cost efficient and beneficial to our management program. If it is not, then we would not enter into the venture. When we do, we have to pay for our mistakes. We cannot go to a commission and ask for a price increase; we absorb the loss.

We do not feel that the undue burden of paying for some executive's poor judgment should be passed on to us in the form of increased cost of electricity.

It is a general understanding that AP&L has an agreement not to use the electricity produced at the Grand Gulf plant. Why should we pay for something we will receive no benefit from?

In a survey of farm households and nonfarm households, the persons recognized that rising cost was the farmer's chief problem. Why should we be expected to add to our woes?

We respectfully request that no further burden be placed upon the beef producers of Arkansas through increases on our monthly electric bill.

Senator BUMPERS. James, thank you very much. That's an excellent statement. It brought back memories of my childhood, talking about the first iron.

Bettye.

Ms. COOPER. I am Bettye Ann Cooper, president of—State president of Women Involved in Farm Economics. Thank you, Senator Bumpers, for arranging this hearing and for your concern for your constituents.

I appreciate the opportunity to address the Committee on Small Business today concerning the potential impact the Grand Gulf nuclear powerplant may have on small business and farmers in Arkansas.

Our Public Service Commission never approved our participation of the constructing of the Grand Gulf plant. According to statistics that I have read, which there seems to be some discrepancy among them today, of the figures that I have here and what I have heard earlier—but I will go ahead and read them as they were furnished to me, as I assume they were factual.

The Grand Gulf plant was constructed at a cost of $2.5 billion with an installed capacity of 1,250 megawatts, or $2,000 per kilowatt. That compares to $276 per kilowatt for AP&L's Arkansas nuclear 1 and $778 per kilowatt for the Arkansas nuclear 2 plant. AP&L's new coal plants at White Bluff and Independence average $472 and $520 per kilowatt. The Grand Gulf plant is projected to produce energy costing 14 cents per kilowatthour, compared to 3 cents per kilowatthour for Arkansas nuclear 1 and a systemwide average of 5.5 cents per kilowatthour. Inclusion of 36 percent of the cost of Grand Gulf would increase AP&L's systemwide average cost of power to 6.9 cents per kilowatthour, a 26-percent increase.

At a time when the profit margin is almost nonexistent for farmers, many of us simply cannot survive with more production cost.

On a personal note, may I add that my husband and I own and operate a family farm consisting of 650 acres. We do all the work ourselves with the help of one part-time employee. If the FERC, in considering these two cases concerning the Grand Gulf nuclear plant, quite possibly could increase AP&L's customer rates by 50 percent, this could have a devastating effect on even our own family farm. To strap ourselves with added production costs, such as replacing electric units with alternate energy sources, is simply not feasible if our family farm is to survive.

As State president of Women Involved in Farm Economics, I represent a diversity of family farms including rice, soybeans, corn, cotton, milo, wheat, poultry, and livestock. Our members represent large family farms of 2,000 acres or more, and medium family farms of 500 to 1,000 acres. We in agriculture have experienced severe financial setbacks and instability in recent years due to weather conditions, inflation, and other unavoidable circumstances. The maintenance of farmer production capabilities is essential to meet the future needs for food, as well as to retain a reservoir of expertise in the hands and minds of people who know how to produce and to insure self-reliance for a domestic and worldwide food supply.

Profit in farming is fundamental with respect to maintaining the ability to produce, and a strong agricultural economy is essential to both rural and urban population.

In closing, I would again like to stress the survival of the independent family farm system for the production of this Nation's food and fiber depends on their profit margin. To further add to production cost by increasing our utility rates by 50 percent would indeed have a devastating effect on Arkansas' economy as a whole. Small business and agriculture must unite in an effort to provide a strong voice about the outcome of the Federal Energy Regulatory Commission's decision on Grand Gulf and the disastrous effects it could have on business, farmers, and the economy of Arkansas. Thank you.

Senator BUMPERS. Bettye Ann, it's even discouraging to talk about it, isn't it?

Ms. COOPER. It is.

Senator BUMPERS. Considering what farmers are going through already, without talking about this.

Ms. COOPER. That's right.

Senator BUMPERS. Thank you very much. That's a fine statement.

Hays.

Mr. SULLIVAN. I am Hays T. Sullivan, a farmer certified and registered planting seed processor and former cotton ginner from Burdette, AR.

Sentor Bumpers, I would like to first thank you and your staff for holding this very important hearing. In the interests of time it will be as brief as possible and to the point.

In Arkansas last year there were 27,621 farms using in excess of $38 million in electricity. A 50-percent increase would be a $19 million direct production cost for the Arkansas farmer if AP&L is granted this increase. A 50-percent increase in electric rates will cost the farmers and citizens in many ways. In Mississippi County alone—this is one county—there are 9 million bushels of soybeans produced, 5½ million bushels of wheat, 4.4 million bushels of milo, and 1.8 million bushels of rice. Handling costs at the elevators alone, from the time a farmer unloads his truck until a barge is loaded for shipment on the river, costs 1.27 cents per bushel. A 50-percent increase on the 20 million plus bushels of grain that is transported would cost $130,000 plus. Again, this is a direct, out-of-pocket loss to the already-stressed Mississippi County farmers. When you add 4 to 5 cents for drying costs in an adverse wet year like we have just experienced on the milo, rice, and soybeans, you could add another $300,000.

Cotton, once king in Mississippi County, is now the No. 3 cash crop following soybeans and wheat. The 1984 certified cotton acreage in our county alone was 67,120 acres, producing an average of a bale and a half an acre, or in excess of 100,000 bales. Ginning costs have increased from $2.46 per bale—electrical costs only—in 1973, to $10.13, the latest figures available, in 1983. Add to this $5.06, which would be an additional 50-percent increase, to the $506,000 in electrical costs, and we come up with a cost—for electrical costs only—of $1.5 million, just electrical costs to gin the cotton crop in Mississippi County. Compare this to the 1973 cost on the same number of bales and you come up with $247,000; that's $2.46 a bale cost. The increase alone would be 100 percent more than the cost of ginning the 1973 crop. And by the way, cotton's about the same price that it was in the 1970's.

Rice is a high water use crop, as Nicky and other have alluded to today, using some 20 to 40 acre-inches of water depending on summer temperature, soil texture, and wind evaporation. The University of Arkansas Extension Service estimates it costs $1.18 per acre-inch of water pumped, and this is from a shallow well. Our wells in Mississippi are from 90 to 150 feet deep; we are fortunate we don't have to go as deep, so it doesn't cost as much to pump.

But this proposed electrical increase would cost an average of $17.70 per acre of rice. With our certified acres last year of 14,500 acres, you'd have an increased cost of $256,000.

A little closer to home in the small, rural city of Burdette, we have a Farmer's Home Administration water system serving 287 families, 2 schools, a county jail, and a State Department of Corrections work release center. Water rates have increased two times in the past 16 years, due primarily to the electrical rate increases. Last year, from October 1, 1983, to September 30, 1984, the system used 29.5 million gallons of water at a cost of 7.2 cents per 1,000 gallons. When you average this over the 287 customers, you get 102,000 gallons per family used per year. A 50-percent increase on this would cost $37.01 per year, or $3.08 per month. Many of these families, Senator, you are very well aware, are minorities, on low, fixed incomes. If they have an increase in electrical rates at home and also a water rate increase, I truthfully cannot see how they can make ends meet without either going hungry, cold, or dirty, and maybe in some cases, all three.

Gentlemen, when the grain elevators, parts houses, equipment dealers, gas suppliers, machine shops and others pass their increases on to us, the farmers and consumers can't stand much more.

A penny here and a penny there over the past years have mounted up. As you can see from this testimony, in one county alone, it will cost several million dollars. You can put a straw on a camel's back; but if you continue to do this year after year, one day that last straw applied will break his back. This is what's happening to the eastern Arkansas farmers—and I might say, all over the Nation—with electrical rates.

A 50-percent increase on electric rates passed on by the cost overrun at Grand Gulf could just be the straw that breaks the backs of the Arkansas farmers.

Thank you.

Senator BUMPERS. Hays, thank you, and thanks for going to all the trouble to get all those statistics. Even the Burdette water system, that's really interesting. Thanks again.

Gene.

Mr. SWEAT. Thank you, Senator Bumpers.

I am today speaking on behalf of Farmers Electric Cooperative Corp. My name is Gene Sweat; I am the general manager of FECC. FECC is a whole sale customer of AP&L and, along with AP&L's other wholesale customers, has participated the past 2 years in the two Federal Energy Regulatory Commission cases concerning the Grand Gulf nuclear plant at Port Gibson, MS. FECC's wholesale rates are set by FERC and we have actively engaged in rate regulation before it for years.

The impact upon Farmers Electric cooperative Corp. and its member consumers by the adverse decision in the *Grand Gulf* case and a loss in the *System Agreement* case is devastating.

With regard to our member consumer farmers, the 40-percent increase likely from the adverse decisions will result in a farmer with a 50-horsepower rice pump having to dedicate an additional two acres of rice production just to pay for the annual increase in demand cost only. Think about that. Two acres of rice land for each 50-horsepower pump just to pay for this unneeded nuclear powerplant in the State of Mississippi.

Farmers Electric Cooperative Corp. serves the rural area in Jackson, parts of Independence, Lawrence, Poinsett, White, and Woodruff Counties, with its home base in Newport, AR. It has a total of 5,000 customers, both within and without the city of Newport, and has been an active REA electric cooperative since 1937.

Some 850 of these customers are irrigation customers and, as stated, the impact upon these customers is not only devastating and awesome, but ridiculous. The increase alone to these irrigation customers would be roughly $500,000 per annum.

Our residential consumers would realize an annual increase of some $964,000 with our commercial and grain drying consumers seeing an increase of approximately $200,000 annually.

The final total economic impact will be far greater than the initial 40-percent increase due to the loss of existing consumers to alternate fuel sources and the continuing responsibility of the remaining customers bearing higher fixed cost per unit sales.

Thank you.

Senator BUMPERS. For the benefit of the audience and the record, Gene has written down here in the bottom, in his own handwriting, "Please help." That's probably about as redundant as anything, but I understand it.

I want to thank all of you. Do any of you want to add anything to your testimony? You've all been very good. We've gotten a divergence of opinion from the agriculture community. We have one more panel from the agricultural community, then we're going to the professions and the business community.

I want to thank all of you. I know it takes a lot of time to compile these figures and put the statements together, and then take off half a day waiting to get on. I want to personally thank you and tell you that I personally appreciate very much your doing that.

Mr. SULLIVAN. Dale, I've got one other thing that I'd like to add.

Senator BUMPERS. Go ahead.

Mr. SULLIVAN. I know Mr. Bemis was talking about the surveys and the 205-percent increase over the past number of years, if I heard him right this morning. My quick calculation in my head, our cotton ginning prices are from $2.46 to $10.13, doesn't add up to a 200-percent increase. And when AP&L does the studies, it seems to me like it's sort of like leaving the fox unattended studying the chicken out. [Laughter.]

Something's going to happen——

Senator BUMPERS. Hays, one of the purposes of this hearing today is to determine—and also to point out—that some industries get hit a lot harder than others do. Some industries are much more electric intensive and energy intensive, and some have already had increases far beyond what others have. Some sectors of the economy suffer more and their costs go up more, and that's one of the reasons we're here today is to find out which industries are going to suffer the most, which are going to suffer the least, and what—if anything—can be done. Hopefully the record will be of some interest to the Arkansas Public Service Commission, even though they will obviously conduct their own hearings at the right times, should any portion of this be passed on to us.

Mr. DUNCAN. Senator, one of the things that was mentioned this morning is the part-time farmers here in the State of Arkansas, and there are many of them. So you consider, if they're paying an electric bill at the house in town and paying an electric bill on the farm, and they have to live in town because that's where the job is, they're going to get hit twice.

Senator BUMPERS. That's correct.

Mr. DUNCAN. Another point to make too is that with the increases that he has mentioned, even with the increases on the farm of all areas of production, the consumer food bought in America today has maintained a steady rate of 16 cents out of that spendable dollar over about the last 10 years. And prior to that it was 20 to 25 percent; we brought that cost down. The farmers have actually brought the cost of production of food to the American people to a level that it's at 16 cents rather than 50 to 55 cents in some other countries.

Senator BUMPERS. But it's broken most of them doing it.

Mr. DUNCAN. Yes; it has.

Senator BUMPERS. Of course, the farm aspect of this is interesting from another standpoint. First of all, you have to spend all that money to irrigate the rice. I'm talking just about electrical consumption because you use a lot of electricity to irrigate the rice. Then you take it, let's say, Riceland or Producers' or wherever you're going to take it, and they use energy, mostly gas, of course, to dry it. Even then, gas heat requires blowers to get there; the electrical cost goes up there. You heard Mr. Bell and Mr. Bailey this morning testify as to what percentage of their total cost is in electricity. It's cumulative thing, and by the time you get to the end product and you're ready to ship rice, especially overseas to compete in international markets, you've really been hit several times. Adding to the cost of finished rice makes it very difficult to export against competition, particularly with a country like Japan, which pays its farmers $1,000 a ton to produce it, which is roughly three times or more what it costs us to produce rice. Those are all very interesting figures.

Bettye Ann, gentlemen, thank you very much.

We're going to take a 1-hour recess until 1:30. It's a little past 12:30, but we'll start again at 1:30.

[Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 1:30 p.m.]

[The prepared statements of Mr. Duncan, Ms. Cooper, Mr. Sullivan, and Mr. Sweat follow:]

STATEMENT OF JAMES DUNCAN, EXECUTIVE VICE PRESIDENT, ARKANSAS CATTLEMEN'S ASSOCIATION

I am James Duncan, Executive Vice President of the Arkansas Cattlemen's Association. It is a privilege to represent the cattle producers of the state of Arkansas in this hearing.

On behalf of the cattle producers of the state of Arkansas, I say "thank you" for taking time to come to Little Rock and listen to our concerns in this matter. It is always a welcome sight when government responds to the needs and desires of the people in a true public hearing forum.

It should also be noted in the outset that the Arkansas Cattlemen's Association feels that too often today committee hearings are held in Washington. We hear consumer groups claim to represent the views of people in absentia. Many times these views, represented by so called consumer activities do not in any way represent the true feelings of consumers. Just because the people are not there should not be construed as representing their feelings. So again "thank you" for coming to the people.

Anytime there is a possibility of an increase in the cost of any tool used on the farm today it causes strain and anguish to the persons involved. The beef producers of Arkansas are already in a state of economic depression due to high input cost and ther inability to pass on their cost increases in the products they produce. Energy and energy related equipment is included in the cost spiral that has occured on the farm.

The average age of a beef producer in Arkansas is 54 years of age, so the majority of our producers can recall the arrival of electricity to the farm. Those that can recall deemed it a privilege to have this great aid and management tool available on the farm. With electricity, farm families were brought into the mainstream of American life.

Many remember their first experience with electricity as a light over the kitchen table where many an hour was spent after meals studying, talking and preparing for the new and challenging world being opened up to farm families. Then memory can recall the refrigerator and other appliances including the saver of many a rural wife, the electric iron.

These are just a few of the things we can recall from the first use of electricity on the farm. Then we moved it outside to incorporate as an everyday management tool to do things quicker, easier and more efficiently.

Along with the technological advances made in agriculture production, producers have been able to bring food to the general public at a cost of 16¢ of their dollar.

Electrical tools and equipment in many forms that use electricity have been a part of this advancement. Put electricity in the perspective of a management tool and we can readily see that it is no longer a luxury but a necessity.

With all the marvelous ways then and now that farmers use electricity, they have had to maintain a very close accounting for the management of this tool.

As stated earlier the farm community deemed it a privilege to have electricity, a privilege they were willing to pay for, and have through the years.

With cost of all energy going up and increasing cost on the utility companies they have been allowed to pass cost through, calling it a fuel adjustment cost or surcharge. Beef cattle producers absorbed this cost of production.

In order to help the customers of AP & L pay for Grand Gulf, they want to "phase in" the cost on our bills. AP & L tells us this will reduce the "rate shock".

What we in the country have never been able to figure out is that once phased in, no increase is ever phased out. The real shock will come if this rate is granted and utilized there would be another obligation requested that we as users of electricity pay for.

On the farm today there are many extras that we pay for such as demand meters, extra installation charges to reach out of the way places. We pay because the electricity is needed, again we absorb these costs.

We in the cattle producing business have not been able to demand and receive the power to pass through increased cost of production to our consumers.

I realize we must operate under a different marketing system. This system demands that we explore every new idea to determine if it would be cost efficient and beneficial to our management program. If it is not then we would not enter into the venture. When we do, we have to pay for our mistakes. We cannot go to a commission and ask for a price increase, we absorb the loss.

We do not feel that the undue burden of paying for some executive's poor judgement should be passed on to us in the form of increased cost of electricity.

It is a general understanding that AP&L has an agreement not to use the electricity produced at the Grand Gulf plant. Why should we pay for something we will receive no benefit from?

In a survey of farm households and non-farm households the persons recognized that rising costs was the farmers' chief problem. Why should we be expected to add to our woes?

We respectfully request that no further burden be placed upon the beef producers of Arkansas through increases on our monthly electric bill.

STATEMENT OF BETTYE ANN COOPER, STATE PRESIDENT, WOMEN INVOLVED IN FARM ECONOMICS

I appreciate the opportunity to address the Committee on Small Business today concerning the potential impact the Grand Gulf nuclear power plant may have on small business and farmers in Arkansas.

Our Public Service Commission never approved our participation of the constructing of the Grand Gulf plant. The Grand Gulf plant was constructed at a cost of $2.5 billion with an installed capacity of 1250 megawatts, or $2,000 per kilowatt. That compares to $276 per kilowatt for AP&L's Arkansas Nuclear 1 and $778 per kilowatt for the Arkansas Nuclear 2 plant. AP&L's new coal plants at White Bluff and Independence average $472 and $520 per kilowatt. The Grand Gulf plant is projected to produce energy costing 14¢/kilowatt-hour, compared to 3¢/kwh for Arkansas Nuclear 1 and a system-wide average of 5.5¢/kwh. Inclusion of 36 percent of the cost of Grand Gulf would increase AP&L's system-wide average cost of power to 6.9¢/kwh, a 26-percent increase.

At a time when the profit margin is almost non-existent for farmers, many of us simply cannot survive with more production cost.

My husband and I own and operate a family farm consisting of 650 acres. We do all the work ourselves with the help of one part-time employee. If the Federal Energy Regulatory Commission, in considering two cases concerning Grand Gulf Nuclear plant, quite possibly could increase AP&L's customers rates by 50 percent, this could have a devastating effect on even our own family farm. To strap ourselves with added production cost, such as replacing electric units with alternate energy sources, is simply not feasible, if our family farm is to survive.

As State President of Women Involved in Farm Economics I represent a diversity of family farms including rice, soybeans, corn, cotton, milo, wheat, poultry, and livestock. Our members represent large family farms of 2,000 acres or more, and medium family farms 500 to 1,000 acres. We in agriculture have experienced severe financial setbacks and instability in recent years due to weather conditions, inflation and other unavoidable circumstances. The maintenance of farmer production capabilities is essential to meet the future needs for food, as well as to retain a reservoir of expertise in the hands and minds of people who know how to produce and to insure self-reliance for a domestic and world-wide food supply.

Profit in farming is fundamental with respect to maintaining the ability to produce and a strong agricultural economy is essential to both rural and urban population.

In closing I would again like to stress the survival of the independent family farm system, for the production of this Nation's food and fiber depends on their profit margin. To further add to production cost by increasing our utility rates by 50 percent, would indeed have a devastating effect on Arkansas' economy as a whole. Small business and Agriculture must unite in an effort to provide a strong voice about the outcome of the Federal Energy Regulatory Commission's (FERC) decision on Grand Gulf and the disastrous effects it could have on business, farmers and the economy of Arkansas.

STATEMENT OF HAYS T. SULLIVAN, FARMER, BURDETTE, AK

Mr. Chairman, I am Hays T. Sullivan, a farmer, certified and registered planting seed processor and former cotton ginner from Burdette, Mississippi County, Arkansas.

I first want to thank you and your staff for holding this very important public hearing. In the interest of time, I'll be as brief as possible and to the point. In Arkansas last year there were 27,621 farms using $38,238,000 in electricity. A 50 percent increase would be $19,119,000 in direct costs for the Arkansas farmer if all of them were on AP&L with the Grand Gulf 50 percent increase. This 50 percent increase in electrical rates will cost the farmers and citizens in many ways. Mississippi County farmers produced 9,000,000 bushels of soybeans or rice. Handling costs at the exporting elevators, in electricity alone, from the time a farmer unloads his truck until a barge is loaded on the river for shipment will be a cost of $.0127 cents per bushel, a 50 percent increase on the 20,734,902 bushels of grain transported would cost $130,062.98. This again will be direct, out-of-pocket loss to already stressed Mississippi County farmers. When you add four to five cents for drying costs in an adverse wet year like 1984 on milo, rice and soybeans, which totals 15,234,902 bushels of grain, you have an additional production cost of $304,698.00.

Cotton, once king in Mississippi County, is now the number three cash crop, following soybeans and wheat. The 1984 certified acres of cotton were 67,120 productive an average of 1½ bushels per acre or 100,680 bales. Ginning electrical costs have increased from $2.46 per bale in 1973 to $2.81 in 1975 to $5.81 in 1979 and to $10.13 in 1983, the latest figures available. Add an additional cost of $5.06 per bale or $506,844.44 for a total electrical cost of $1,529.329 for our cotton crop alone. Compare this to the 1973 cost on the same number of bales and you come up with $247.672. As you can see, this increase alone will be 100 percent more than the entire ginning cost of the 1973 crop. (By the way, the market price of cotton is about the same as it was in the 70's.)

Rice is a high water use crop, using some 20 to 40 acre inches of water per year depending upon summer temperature, soil texture and wind evaporation. The University of Arkansas Extension Service estimates it costs $1.18 per acre inch of water pumped. You can easily see what this proposed increased in electrical costs would do to the rice farmer. It would average $17.70 per acre additional cost. With our planted acres in Mississippi County at 14,492 acres the increased cost would be $256,508, if all electrical pumps were on AP&L.

A little closer to home in the small rural city of Burdette, we have a Farmer's Home Administration water system serving 287 families, two schools, the county jail and the Department of Corrections Work Release Center. Water rates have increased two times in the past 16 years, due primarily to electrical rate increases. Last year, from October 1, 1983 to September 30, 1984, the system used 29,507,360 gallons of water at an electric cost of 7.2 cents per 1000 gallons used. When you average the gallons used by the 287 customers, you get 102,810 gallons per family. At a 50 percent increase, the average yearly cost would be $37.01 per year or $3.08 per month per family. Many of these families are minorities on low fixed incomes. If they have an increase in electric rates at home and also a water rate increase, I truthfully cannot see how they can make ends meet without going hungry, cold or dirty, or maybe in some cases all three.

Gentlemen, the grain elevators, parts houses, equipment dealers, gas suppliers, machine shops and others pass their increases on to us. The farmers and consumers cannot stand much more.

A penny here and a penny there over the past years has mounted up. As you can see from this testimony, in one county alone, it will cost several million dollars. You can put a straw on a camel's back, and if you continue to do this year after year, one day that last straw applied will break his back. This is what is happening to eastern Arkansas farmers (and I might say all over the nation) with electrical rates.

A 50 percent increase on electric rates passed on by the cost overrun at Grand Gulf could just be the straw that will break the back of the Arkansas farmers.

Information compiled from: University of Arkansas Extension Service, Little Rock, AK; Bunge Grain Elevator, Osceola, AK; Cargill Grain Elevator, Osceola, AK; Farmers Soybean Grain Elevators, Blytheville, AK; Southern Cotton Ginners Association Memphis, TN; and Burdette Water System, Burdette, AK.

STATEMENT OF GENE SWEAT, GENERAL MANAGER, FARMERS ELECTRIC COOPERATIVE CORP.

Thank you Senator Bumpers. I am today speaking on behalf of Farmers Electric Cooperative Corporation. My name is Gene Sweat. I am the General Manager of FECC. FECC is a wholesale customer of AP&L and along with AP&L's other wholesale customers has participated the past two years in the two Federal Energy Regulatory Commission cases concerning the Grand Gulf Nuclear Power Plant at Port Gibson, Mississippi. FECC's wholesale rates are set by FERC and we have actively engaged in rate regulation before it for years.

The impact upon Farmers Electric Cooperative Corporation and its member consumers by the adverse decision in the Grand Gulf case and a loss in the System Agreement case is devastating.

With regard to our member consumer farmers, the forty percent increase likely from the adverse decisions will result in a farmer with a 50 horsepower rice pump having to dedicate an additional two acres of rice production just to pay for the annual increase in demand cost only. Think about that! Two acres of rice land for each 50 horsepower pump just to pay for this unneeded nuclear power plant in the State of Mississippi.

Farmers Electric Cooperative Corporation serves the rural area in Jackson, parts of Independence, Lawrence, Poinsett, White and Woodruff Counties with its home base in Newport, Arkansas. It has a total of 5,000 customers both within and without the city of Newport and has been an active REA electric cooperative since 1937.

Fully 850 of these customers are irrigation customers and as stated, the impact upon these customers is not only devastating and awesome but ridiculous. The increase alone to these irrigation customers would be roughly $500,000 per annum.

Our residential consumers would realize an annual increase of some $964,000, with our commercial and grain drying consumers seeing an increase of approximately $200,000 annually.

The total economic impact will be far greater than the initial 40 percent due to the loss of existing consumers to alternate fuel sources and the continuing responsibility of the remaining customers bearing higher fixed cost per unit sales. Please help!

AFTERNOON SESSION

Senator **BUMPERS**. The committee will come to order.

Our next panel is panel No. 5. This is Don Allen, Executive Director of the Arkansas Poultry Federation, and Gene Newman, Director of Engineering and Purchasing for Tastybird Foods. We're delighted to have both of you gentlemen.

Don, your name is on here first, so we'll start with you. Gene—he's going to defer to you.

STATEMENT OF GENE NEWMAN, DIRECTOR OF ENGINEERING AND PURCHASING, TASTYBIRD FOODS; AND DON ALLEN, EXECUTIVE DIRECTOR, ARKANSAS POULTRY FEDERATION

Mr. **Newman**. Fine, Senator. I appreciate the opportunity to be here and present information to the committee concerning the Grand Gulf issue.

My name is Gene Newman; I'm director of engineering and purchasing for Tastybird Foods. Tastybirds Foods is an integrated poultry company with a majority of its operations in Arkansas, up and down the river valley. Most of our Arkansas operations are served by AP&L from an electric standpoint.

Our company depends heavily on small business concerns. Many of those also are served by AP&L. Within the State of Arkansas we purchase from some 900 small business concerns, including the individual growers who grow our poultry for processing.

We are very concerned with the potential outcome of both cases before the FERC because of exorbitant direct costs to our company, and also because of indirect costs passed on to us from our suppliers.

The effect of a negative decision concerning Grand Gulf and the rate equalization issue would not only raise the existing costs to poultry growers, but may preclude the addition of houses to existing farms and the addition of new growers necessary for the growth of the poultry industry in Arkansas.

Since we compete on a worldwide market, any additional costs that are generated by the two issues are passed on to us, and must be absorbed by our company and cannot be passed through into that world market, typically. Competition of Arkansas poultry products in the world market could be adversely affected.

In a business which operates on a large volume and a small margin, such costs as generated by a 25- to 50-percent increase in electric costs would have a negative effect on profit and future expansion, thereby possibly excluding additional jobs in the Arkansas area. Currently we are planning an expansion in the Pine Bluff area. Should the rates go in that are now being quoted of a 25- to 50-percent increase in electric rates in the Pine Bluff area, we would necessarily have to look at that cost of operation and the possibility of relocating in another area in which we do business, such as Texas, where the rates are much more reasonable.

If I may, I would like to present some specific figures from some of our operations with electrical power costs as follows. These numbers do not include the current rate issue before the State of Arkansas, which AP&L has asked to be considered by the APSC. In some cases, the issue before the State of Arkansas currently would raise our rates by as much as 19.6 percent regardless of Grand Gulf or rate equalization outcome.

We have six electric companies which supply us power in Arkansas and Texas. Of the six, AP&L is the highest one that we buy power from on a comparative basis. We have a mill in Pine Bluff which pays 6.65 cents per kilowatthour off the AP&L system; that's on current rates. We have a mill in Dardanelle which pays 5.38 cents; Morrilton Hatchery pays 5.25 cents—for AP&L power.

Senator BUMPERS. Gene, just a minute, let me get this. Pine Bluff is 6.65?

Mr. NEWMAN. Yes, sir. Dardanelle at 5.38. Morrilton is a hatchery, pays 5.25 cents per kilowatthour. Rison is a hatchery, pays 4.8 cents per kilowatthour, and the Dardanelle processing facilitiy at Dardanelle, AR, pays 4.9 cents per kilowatthour.

Other comparable rates—if I could inject this; it has nothing to do with the Grand Gulf case, but might be of interest to the committee—we buy electric power in Texas from two different companies, the East Texas Co-op at Tenaha, TX. Our rate to the Teneha feed mill is 4.37 cents per kilowatthour, as compared to 5.38 at the Dardanelle feed mill.

Senator BUMPERS. Is Dardanelle on AP&L?

Mr. NEWMAN. Yes, sir.

The mill we have in Paris, AR, is on Paris Municipal supply; that rate is 4.40 cents per kilowatthour.

I have listed two plants which are on SWEPCO, one in Waldron, AR, which is comparable to the Dardanelle processing plant—the Dardanelle process was 4.90. The Waldron rate from SWEPCO is 4.86. The Carthage, TX, operation, also on SWEPCO, is 4.67.

So you can see, almost in every instance, power outside the AP&L area that we operate in is cheaper than in the AP&L area.

The overall effect of a Grand Gulf rate equalization negative decision to us would be as follows. We currently pay about $2.7 million per year for electric power to AP&L. If both systems are approved and numbers such as a 50-percent increase that we've heard bantered this morning are put into effect, we would stand to have a cost increase of $1,353,000. In addition to that—that's the direct increase to us as an operating company—in addition to that, we have 699 contracted bird growers in the State of Arkansas. Each of those people have an average of two houses, and our numbers indicate that each house, on an increase of 50 percent, would raise by about $1,000, which would increase our grower cost in the AP&L by about $7,000.

We also deal with 240 small business other than growers in the State of Arkansas where we spend some $6.5 million annually. The effect on those people has not been determined but would necessarily be passed on to us as a cost of their operations.

Senator, that's all I have. If there are any questions, I'd be happy to answer them.

Senator BUMPERS. Those are really interesting figures, Gene, and I appreciate the time you took to put those together for the committee.

Don.

Mr. ALLEN. Thank you, Senator.

I'm Don Allen; I'm executive vice president of the Arkansas Poultry Federation. It's a trade association which enjoys the membership of every commercial poultry and egg producer in Arkansas.

We produce more broilers than any State in the Union. We're No. 1 in the Nation. We're fourth in the production of turkeys, fifth in the production of commercial eggs. Last year this industry contributed $1.1 billion to the Arkansas economy by providing the basic source of income to over 65,000 Arkansas workers and farmers. The annual payroll for the poultry industry in Arkansas exceeds $700 million. There are over 6,500 of the individual contractors to which Gene referred in the State of Arkansas

You know, during the last 5 years Arkansas has lost textile mills, metal plants, shoe plants; various and sundry other major industries in Arkansas have either ceased business here or dramatically cut back. During that same period of time this industry had a steady growth, both in production, jobs, payroll, purchasing from the State, and tax burden to the State. It's a very major industry in this State. It's a very basic industry.

We obviously did not get to this position by selling to the people of Arkansas. We export 98 percent of all that we produce, so we're a world marketer.

Of course, this tells you that our competition comes from very many States, and only Louisiana and Mississippi share the burden that we're here to talk about today.

Brolier and turkey producers are considered successful if they can accomplish a profit margin of less than 1 cent a pound. A commercial egg producer, if he realizes one-half cent per dozen profit, pretax profit, is a successful producer. Now, those are margins that are almost inconceivable, and this tells you that changes in cost of a tenth of a cent a unit is a dramatic change and has a dramatic effect on the future of the industry. Each of these integrated companies, one of which Gene represents here today, have operations in many States. They are Arkansas-based people for the most part, but they have operations in Alabama, Georgia, Florida, the Carolinas, Texas, Oklahoma, and Missouri. And they have the ability to grow there; they have the ability to make their increases there. And as we've heard from so many people this morning, that's what dictates what you do, is your ability to compete in the marketplace and return a profit.

You know, a housewife in America can buy fresh chicken and fresh turkey today for a 33-percent higher price than she could buy 30 years ago, 1954. This morning I was interested in hearing the gentleman from AP&L make comparisons of cost increases for goods and services, and was rightfully quite proud of the fact that electricity was only a 200-percent increase. I didn't catch the time span, but I repeat, for fresh chicken and turkey to the housewife at the grocery store, in 30 years it's gone up 33 percent, and that is a testimony to the innovativeness and the dedication that these Arkansas poultry people have. They are capable of meeting their responsibilities and holding their costs. The kind of cost they can't do anything about is that that's forced on them, and that's what we're here talking about today.

If the electricity rates are increased to the worst scene that you've given us today, 50 percent, more than half of that margin that I just gave you will be absorbed in paying for the electricity. If they got another increase in rail transportation at the same time, bringing corn in here from the middle west, their profit margin could be gone. It's just dramatically important to what we think is the basic industry in the State of Arkansas, that the importance of not having this rate imposed on these people is almost without description.

The premise under which these people operate, and they're all very free enterprisers—we feel like most Arkansans are, very independent people—is that if they make a decision in their corporate planning or their corporate management, it affects them and their growers. And if it bombs out, if it doesn't work out, they don't look for someone to absorb the net effect of that. They suck it up and tighten their belt, find cost reductions, borrow money, and bail themselves out of the hole. The people I represent feel like that's the basic responsibility of everyone; we feel that that's the basic responsibility of Middle South Utilities. We think it is grossly unfair to even consider causing us to have to absorb the costs of this power generating plant, without even considering the fact that we're told the electricity is not going to be used here, it's not going to be sold to us. It's going to be sold somewhere, probably to a State that competes with us. And we're going to be put in a position not only of paying for their plant, but subsidizing the electricity of our competition. It's just a real paradox; it's almost unthinkable, and the consequences of it can be just more than dramatic.

What we have to say is very little different than what the rice people had to say or what the cattle people are going to have to say, or any of the agricultural community. There simply is not a margin there. There is not an error for mistake like this, and we respectfully request that the Senate Committee give grave consideration to responsibility for action, and we feel we should not be held responsible for the action or inaction of some other company. Thank you.

Senator Bumpers. Don, your comments about the number of industries in this State that are vulnerable to imports and the uniqueness of the poultry industry and how important it is to the State are really very good. I think you told me one day, less than a month ago, that next to the timber and related industries, the paper industry and so on, the poultry industry is second with something like 60,000 people employed in the State. Is that correct?

Mr. Allen. That's correct.

Senator Bumpers. So it goes without saying that while you are not going to be vulnerable to imports, you are vulnerable to competition from other States.

Mr. Allen. Absolutely, Senator.

Senator Bumpers. And obviously, you're going to lose whatever competitive advantage you have if electricity becomes an inordinate part of your production costs.

Mr. Allen. The only loyalty that exists in a world marketplace is price. A tenth of a cent a pound or a tenth of a cent a dozen eggs on a major contract will lose you a contract.

Senator Bumpers. Don, I was on a plane the other day with a young fellow. He was formerly from Arkansas and so we just struck up a conversation. He lives in South Carolina and he works in a large textile mill there. This company has textile mills all over the United States—he said they used to have 73, they're down to about 50 now—but it was an interesting thing. This doesn't have an awful lot do do with what we're talking about, but he said that all over the plant they have "Buy American," "Buy American," and he said every piece of equipment in that plant came from either Sweden or Germany.

So it always depends, when you talk about the loyalty of the marketplace. He wants everybody to buy American with his product, but he's going to buy it where he can buy it the cheapest.

Mr. **Allen**. Senator, I sent you a letter just the other day, which you'll see when you get back. The last major sale of poultry in the world market was made 2 weeks ago by France to Iraq, and they sold it—I forget what the tonnage was, it was several hundred metric tons of poultry—they sold it for $973 a ton or some such thing. Our cost of production is over $1,100; yet, on a free market, one-to-one, head-on competition, we can produce, transport, and sell chicken in France cheaper than France can. We're not looking for subsidies; this industry does not look for a subsidy. It never has, as you know. It's a very independent group of people. But we've lost 12 percent of our market to France and Brazil in the last 5 years because their countries subsidize their industries to get them into the world marketplace, and they've kicked us out of it. No one can produce as efficiently as we do in this country; no one can get to the world marketplace as efficiently as we do. But we can't get there because of subsidies from other countries.

So we're hard pressed, and any cost increase that comes from regulated costs, something over which each company has no control, is something that we simply cannot swallow.

Senator **Bumpers**. Gene, let me ask you this. I was curious. You gave some comparisons between your rate in Pine Bluff, Dardanelle, Morrellton, and Rison, and Paris, which you buy from the Paris Municipal Power Co.——

Mr. **Newman**. Yes, sir?

Senator **Bumpers** [continuing]. All the rest of these are on AP&L. Interestingly, I guess AP&L probably sells Paris its power; is that right, Jerry? Is that right, Mike?

Mr. **Bemis**. No, I don't think so.

Senator **Bumpers**. You don't sell to them?

Mr. **Bemis**. No, sir.

Senator **Bumpers**. Is Paris on AP&L or is it on Oklahoma Gas & Electric, OG&E?

Mr. **Newman**. I believe that Paris draws its power—the municipality draws its power from OG&E.

Senator **Bumpers**. Why is there a disparity between four different systems here, all on AP&L? You said that in Pine Bluff, your rate was 6.65 cents per kilowatthour, and in Rison it's 4.8, for example.

Mr. **Newman**. Senator, that has to do with a lot of the operation in those particular areas. Rates are established——

Senator **Bumpers**. Is that rate based on consumption?

Mr. **Newman**. Yes, based on consumption, and also based on demand. At Pine Bluff, the demand factor is evidently higher than it is, for instance, at a Dardanelle comparable-type operation. And it drives that cost up.

Mr. **Allen**. That's another interesting thing, Senator. Most heavy industry can adjust to some extent—the hours of operation—to avoid the peak-demand cost. We're dealing with a live animal produced from a product, and we're at the mercy of nature. We don't have the ability to adjust our plant processing or refrigeration needs to an hour of the day or night when the demand is down. We have to kill the bird when it's the right size and get the egg when it's laid, and process it, and get it to the marketplace. So we have very little flexibility in that area, and we're really tapped hard by the demand factor because we're right there in the middle of it.

Senator BUMPERS. Don, if you or Gene know. What is the industry doing—and perhaps just as importantly—what are the growers doing to try to diminish and cut their energy costs? Are they continuing to do different things to try to reduce their costs and conserve energy?

Mr. ALLEN. Constantly; constantly. There are many companies that have come into the State in the energy-conservation business. The construction of broiler and chickenhouses and turkeyhouses has changed dramatically since 1973. They are totally environmentally controlled now. The new ones are, not the ones that were in service then. But they have employed different types of insulation. Houses used to not be insulated, as you know, when we had cheap energy. Different window curtaining affects different floors, circulation systems, savings systems, free-cycling systems, and then the plants—by the way, another thing, we are restricted in what we can do in the processing of these products because it is totally controlled, as you know, by the U.S. Department of Agriculture. So they dictate the temperatures of the water and of the stages of processing. So the requirement for icemaking and the requirement for refrigeration is set by the USDA, so you're only—you only have the opportunity to get efficient in that you get a more efficient motor or a more efficient refrigeration unit, not where you do it or to what degree you do it. But they've been diligently working on that ever since 1973 when the first embargo hit and the rates went up.

But you know, it's like several people here said this morning, yourself included, you get awfully discouraged spending millions and millions of dollars in that effort when your conservation doesn't do anything for you and out-of-pocket expense—you know, the utility company, as I understand it, is entitled to a certain return on its investment. And if we don't buy it, we're going to pay for it anyway. You struggle, and sweat, and work at that, and then your electric bill goes up anyway. That causes people a lot of concern about putting an awful lot of interest into that, or a lot of money that they could be spending somewhere else.

Senator BUMPERS. Let me ask both of you. Don, I know you're fairly sophisticated in these things; you used to head up my Department of Commerce when I was Governor——

Mr. ALLEN. You taught me all I know, Senator. [Laughter.]

Senator BUMPERS. Let me ask both of you, you were here this morning and you heard some discussion about the settlement. You saw the chart, I assume. Gene, were you here for that?

Mr. NEWMAN. No, I wasn't here that early this morning.

Senator BUMPERS. Well, let me direct the question to you, then, Don. You heard Dick Bell say that he and his group felt uncomfortable with the all-or-nothing approach that is prevalent right now. We hope we win totally or lose not so badly. He thinks the settlement proposal ought to be looked at more seriously.

The president of AP&L said the other day that he didn't think it had much of a chance now because of the political opposition to it. I don't know whether FERC is that persuaded by what politicians say but let's just assume that the AP&L board of directors has approved this rate and that the PSC is going to approve it, and that the rates are only going to go up 6.8 percent over the next 10 years. How would you feel about that?

Mr. ALLEN. Well, given the alternatives, I would feel terrific. You can't do without electricity; we don't want to be put in the posture of doing without electricity, because we're out of business. So we hope for the very best thing that can happen. The only thing we're trying to do here is dramatize the effect of even a small increase, and we're only talking about one thing; they're out there looking for another increase independent of this, and they're going to be looking for another one in another couple of years.

Senator BUMPERS. Yes.

Mr. ALLEN. We're not trying to——

Senator BUMPERS. This settlement proposal only deals with the increase that would occur as a result of Grand Gulf.

Mr. ALLEN. Yes, that's right.

We never want to get in the posture of saying we want our whole cake or nothing at all. We'd love to have no increase because of this, obviously; and obviously, we feel like it's an unjust decision if it's made for any degree. But most assuredly, anything better than the worst scene is good.

Senator BUMPERS. You don't have to be a Ph.D. mathematician to like 6.8 better than 25 or 50.

Mr. ALLEN. It depends on whether it's a raise for me or an expense for me. [Laughter.]

Senator BUMPERS. Thank you both very much. I enjoyed having your testimony this afternoon.

I will remind everybody again that the record will be open until January 4 if you have additional comments that you want to submit for the record.

Our next panel, panel 6, is Fred Smith, who is president of Warner/Brown Hospital; Larry Lazenby, vice president of Baptists Medical Center; Jim Tom Caplinger, president of Caplinger Motors; and Bob Russell, president of the Arkansas Automobile Dealers Association and a dealer delux in his own right, and current president of the chember of commerce in Little Rock, right?

Mr. RUSSELL. Right.

Senator BUMPERS. Fred, since your name is on here first, why don't you lead off.

STATEMENT OF FRED H. SMITH, PRESIDENT, WARNER BROWN HOSPITAL; LARRY LAZENBY, VICE PRESIDENT, BAPTISTS MEDICAL SYSTEM; JAMES T. CAPLINGER, PRESIDENT, CAPLINGER MOTORS; AND BOB RUSSELL, PRESIDENT ARKANSAS AUTOMOBILE DEALERS ASSOCIATION AND PRESIDENT, LITTLE ROCK CHAMBER OF COMMERCE

Mr. SMITH. Thank you, Senator. You have the prepared testimony that I submitted; if you would turn to the graphics, about the fourth or fifth page back, you'll see some black lines at the top.

The black in the year 1982 and 1983 indicates the proposal add on to those years for the rate increase if Grand Gulf goes as has been proposed. It hadn't been done in 1982 and 1983, so it will not be calculated in our 1984 year. In October 1983, hospitals were frozen under federally funded patients to have only DRG's and propective payment. If it had been in the 1982 or 1983 year—it was not, so it will come off the bottom line. If we continue to have other private insurance companies to pick up and do as the Federal Government does, this cost shifting that you see here in black will not occur, and consequently the institutions will suffer that much of a loss. It's $2.70 per patient day for the 60 percent of hospitals serve in Arkansas, on an average. That's $2.70, I'm sorry, per patient per day, Senator, for the 60 percent of the hospitals served by Arkansas Power & Light.

We've looked at several other hospitals, and the $2.70 is average. It will add 2 percent to our cost. We have an overall inflationary factor in the payment system for health care of 4.5 percent, and this would absorb 2 percentage points of that.

Should this occur in any form in the State of Arkansas, health care will need your assistance in adopting a pass through to the Secretary of Health and Human Services because there are no other places to cost shift this. The cost shifts have already been eliminated by the Secretary.

As you see, it's almost $5 million impact on the 60 percent of the hospital beds in Arkansas that are serviced by AP&L; 40 percent of the beds are not.

We are caught with a situation where 50 percent of the patients in Arkansas, their payments are controlled by the Federal Government through the prospective rate payment system known as DRG's, and there's no place to shift the cost. And we're controlling the product of health care, but we are not controlling the components of that element, so we are on somewhat of an economical suicide mission on where we're going to do this.

Senator, I think we just really need your help on behalf of health care; we need your help on finding the way. Whatever happens to Grand Gulf, if it is brought into the rate structure, whether the compromise is used, that's fine. It doesn't matter. None of that passes through. The current 15 percent rate increase that AP&L has does not pass through to Medicare/Medicaid payors, and it just needs to be understood that any federally funded patient after October 1983 will not participate in this. It will all go to the private payor as long as they stand it; and then when they object, then the institutions will lose that of the bottom line.

Senator Bumpers. Fred, that is really an interesting observation, and it occurs to me that this goes right to the heart of one of the reasons we're here today.

Unless Congress gives you a pass-through on that, you're going to be stuck with the same DRG costs——

Mr. Smith. Right.

Senator Bumpers [continuing]. And you're not going to pass a dime of this on——

Mr. Smith. No, sir.

Senator **Bumpers** [continuing]. At Warner Brown. You say here you're going to have to eat an additional, roughly, $100,000 a year just for electrical costs, right?

Mr. **Smith**. That's correct.

Senator **Bumpers**. You know, this also points up something else, Fred. This is really an excellent statement here, and these figures are most interesting. There is probably no place quite like health care where the ordinary residential consumer is going to get a double whammy——

Mr. **Smith**. Right.

Senator **Bumpers** [continuing]. In his residential bill, and also if he has to go to the hospital.

Mr. **Smith**. That is correct.

Senator **Bumpers**. Well, is there nothing in the DRG Program, Fred, that would give you a special exemption whereby they would reimburse you for these additional costs?

Mr. **Smith**. Not unless it's mandated by Congress.

Senator **Bumpers**. And there is no such mandate now?

Mr. **Smith**. No, sir. There are no mandates for any factors outside of those factors in health care that were present as of the end of business, October 30, 1983. No other costs of milk, bread, telephone service, or anything else.

Senator **Bumpers**. If any of that stuff goes up, you just have to—pardon the pun—you have to eat it.

Mr. **Smith**. Yes, sir. That's why we try to do it this way. The black line indicates, in 1984 year, just the electrical rate alone that will not be paid to institutions. And we're already facing those issues of health care for the poor, and this is just going to make it that much tighter. But there are no provisions, Senator, there are no loopholes in the diagnostic-related groups, and there's no provisions that any private insurance purveyor from adopting that as a permanent pay standard, because it's the only way that they can stop cost-shifting so it's quite natural they should be looking at it. It I was on the other side of the fence I'd be looking at it, because the Federal Government is not paying its fair share.

Senator **Bumpers**. Fred, do you know whether this is a statewide average cost of $2.70. Would this constitute, on an average, a $2.70 per patient day increase?

Mr. **Smith**. Yes, sir.

Senator **Bumpers**. That is the statistic for the entire State as an average?

Mr. **Smith**. Yes, sir. If you take away the 40 percent of the hospitals that are not served by AP&L. In Larry's system, he's got many hospitals; but if you took the figures here from Magnolia, from Crossett, and I believe from St. Vincent's came in in time to be included in this, Senator, but we did a telephone survey and we found out it runs from $2.10 to $3.25, depending on how energy efficient your building is. And it averages out to be $2.70. If you're St. Edwards Hospital, for example, in Hot Springs, it just had a big energy-efficient campaign and had double glass windows. They're in a valley, they pay less; their cost is less because they use less energy than we do in El Dorado to heat and cool that same plant. So those things will shift based on—at Crossett, AR, the building is all wood and it's a different position altogether. So we did average these.

Senator **Bumpers**. OK.

Larry.

Mr. **Lazenby**. Thank you, Senator.

I do thank you, your committee, and your staff members especially, for the work they've put into this hearing and your willingness to listen.

I do want to speak on behalf of the four hospitals in the Baptist Medical System, the first being Baptist Medical Center. BMC is a 739-bed hospital here in Little Rock. Memorial Hospital is a 260-bed facility located in North Little Rock. Arkansas Rehab Institute is a 140-bed institute designated to stroke, spinal cord injury, and alcohol and drug abuse patients. And then last, the smallest hospital in our system is Twin Rivers in Arkadelphia. It's a 57-bed primary care facility that the Baptist Medical System built and opened in July 1983.

Just in terms of dollars, the impact on the Baptist Medical System, assuming two potential rate increases, one at 25 and one at 50 percent, the dollar impact based on the 1985 budgeted electrical costs for the system, 25 percent increase would be $641,000 average. The 50-percent rate increase would be $1.2 million or almost $1.3 million in the first year, assuming 1985 rates.

Just to echo what Mr. Smith said regarding the DRG, that is now a fixed rate for health care institutions. There is no provision, as he stated, to receive any additional money except charge-paying patients. He used the example of $2.70 and some odd cents per patient day. My calculations show that we would have to pass 100 percent of this cost to non-cost-based payors, which would be $45 to $50 an admission, additional to each person coming in paying charges.

Senator **Bumpers**. That's a good statement, Larry. I didn't realize you all had Twin Rivers down in Arkadelphia.

Mr. **Lazenby**. Yes.

Senator **Bumpers**. Did you build that?

Mr. **Lazenby**. Yes, sir; we did.

Senator **Bumpers**. What is their big hospital down there, the——

Mr. **Lazenby**. Twin Rivers is the only hospital.

Senator **Bumpers**. Is that the only hospital there, 57 beds? Well, I was thinking—I helped with that; I'd just forgotten the name of it.

Mr. **Lazenby**. Twin Rivers.

Senator **Bumpers**. Dan Grant used to call me daily about that hospital.

Mr. **Lazenby**. I'm sure he did.

Senator **Bumpers**. Jim Tom.

Mr. **Caplinger**. Thank you, Senator.

I'm Jim Tom Caplinger. I've been a small businessman in Arkansas since 1946. Since 1961 I have been a franchise automobile dealer in England, and I presently represent the manufacturers of Chevrolet, Oldsmobile, Chrysler, Plymouth, and Dodge.

Senator **Bumpers**. That's not a bad little old ad you're putting cut here, Jim. [Laughter.]

Mr. **Caplinger**. Well, if I don't do it, you're not going to do it. [Laughter.]

In addition, I represent the Arkansas Automobile Dealers Association on the National Automobile Dealers Association board of directors.

First, I'd like to commend you, Senator Bumpers, for your efforts to give a voice to the people of the State on this important issue. As a very small businessman, I have to be active in all phases of our business, even though our electric bill is only 7 percent of our fixed overhead cost. We in the automobile business are vitally interested in the outcome of both of these cases, particularly the system average costing case, where Arkansas Power & Light would be required to join the other three subsidiaries of Middle South in paying for present and future plans in the system.

Our cost per kilowatthour in our own business has increased 214 percent in the last 10 years. However, other expenses have increased also during these years, and we have not been overly exercised with this expense. Now we learn that after Arkansas Power & Light has built the nuclear plants and the coal-fired plants in Arkansas, and I hear it that we don't need any more fuel from today, we're to share in the cost of Grand Gulf nuclear generating plant in Mississippi despite the fact that we don't need it. And I, for one, don't like this and I don't think our business can stand it.

We must be careful not to win the battle and lose the war, which would be the case if the FERC found in favor of the system average costing concept.

I hear differences of opinion about the estimates of increase in our bills, but it will go up to 50 percent, it seems. We are a very low margin of profit business, the automobile business is, so all increases hurt us; but my real fear is a different one. A large increase in residential rates would cause a family with a tight budget to delay purchasing a new or used car. I remember, too well, when the average age of cars on our streets and highways was 7 years, caused by the high interest rates. I think you've heard a whole lot about this. Every dollar of increase for power to our farmers on irrigation wells, or the dryers or the gins or whatever, weakens the farmer's ability to buy equipment he needs, some of which would be cars and trucks. Increases for large industrial users could cause plants to lay off workers or even close, which would take these people out of our car market, also. And I shudder to think what our hospitalization insurance costs would be if the rates charged hospitals were increased 25 to 50 percent.

I don't want to cry wolf and lead you to believe that all the dealers would close their doors if we had an increase in power rates, because they're a lean, tough bunch. They've survived the gas shortages, the high interest rates, and the strikes of the last 10 years. But I want you to know that any rate increase will hurt, but a large increase will be devastating to our business and, I assume, to other businesses as well.

I thank you for allowing me to comment, Senator, and if there's any questions, I'd be glad to answer them.

Senator **Bumpers**. Thank you, J.T.

We'll now hear from Bob Russell.

Mr. **Russell**. Senator Bumpers and members of the committee, let me first thank you for holding this hearing today and serving as a sounding board for a very important economic issue to our State.

As president of the Arkansas Automobile Dealers Association and the Greater Little Rock Chamber of Commerce, I come in contact with or represent a large number of small businesses in the State of Arkansas. No matter where I go, when the issue of Grand Gulf is raised, almost without exception the response from the dealers is the same, that we just cannot afford a 36- to 42-percent increase in utility costs.

As everyone in this room knows, over the last 10 years AP&L—or the Arkansas taxpayer and ratepayer—has paid for three powerplants in the State of Arkansas with the understanding that AP&L would have the capacity to meet our needs for many, many years to come.

The complexities, questions, and emotional issues of Grand Gulf only add to the negative responses that we hear from our dealers. Any rate increase which would go for subsidizing any powerplant from which we receive no allocation, and for which we have no need, I think is probably totally unacceptable to the small businessman in Arkansas.

While it's true that the price of the new car has risen steadily over the last few years, profit margins of dealers have also decreased just about as steadily. Dealers, like all small businessmen, have to work harder to make a profit and even harder still to hang on to it. With a combination of higher down payments and sales tax on higher priced automobiles, potential customers are finding it harder and harder to buy a new car in Arkansas. With us living in a rural State with poor public transportation, a dependable car is a necessity to most Arkansans.

In addition to the rising costs, the technical complexities of the 1985 automobile have affected servicing and maintaining the automobile properly, both for consumer and dealer. Dealers have had to hire highly trained personnel over the last few years. We've had to purchase very expensive diagnostic equipment and expand our parts departments significantly. This has had a significant financial impact on the service departments and the cost that a consumer must bear.

The math is very simple to the dealers. Fixed expenses, such as utility costs, must be passed on to the consumer. This only increases the financial cost and the burden to the consumer. And I don't have any figures available yet for 1983 in Arkansas, but at our dealership our utility cost this year alone over last year through November is up 21.7 percent. And that's a utility cost that I think AP&L is entitled to.

Senator BUMPERS. Just for electricity, Bob?

Mr. RUSSELL. Just for electricity, yes, sir.

Arkansas automobile dealers last year spent an estimated $4.3 million for light and power. That's an average expenditure per dealer of $12,146. I think that you can see what a $1.5 million to $1.8 million would have on our business if FERC passes on these increases to the Arkansas taxpayer and ratepayer.

In conclusion, as president of the Arkansas Automobile Dealer's Association, we would like to urge the committee to closely monitor the upcoming proceedings and to use whatever influence you may have to protect small businesses in Arkansas from the Grand Gulf assessments. And we would also call for the FERC to carefully examine their position in what promises to be a precedent not only for Arkansas, but for the entire Nation.

Thank you.

Senator BUMPERS. Bob, thank you very much.

I appreciate very much all of you gentlemen coming here and giving us insights on what your existing costs are and what they would be if any or all of these costs are passed on to us.

Fred, let me ask you and Larry. Have you been able to take advantage of the Department of Energy's Conservation Program for schools and hospitals?

Mr. SMITH. Yes, sir.

Senator BUMPERS. Has that been helpful to you?

Mr. SMITH. In some hospitals we've used it in Arkansas, Senator, and used it very, very well. Others we've chosen not to use it, and have used computer programs based off of their other hardware that they had. We personally have not used it because the hardware we had, coupled with the American Telephone & Telegraph system that we have, gave us energy controls by some of them, so we've used that. But others have applied for it, and Larry, I think—did you use it?

Mr. LAZENBY. Well, we have set up our own computer system. We can monitor all our energy uses.

Just an interesting note, speaking strictly for Baptist Medical Center. We had about a 20-percent expansion in square footage in 1979. In 1985 we budgeted the same kilowatt usage that we did in 1978, prior to the expansion. So we have really had a turn in our energy usage.

Senator BUMPERS. Larry, you and Fred heard Bob talk about what his cost had gone up—21 percent, did you say, Bob?

Mr. RUSSELL. Yes.

Senator BUMPERS. And you're talking about for the approximate same number of kilowatthours?

Mr. RUSSELL. Yes.

Senator BUMPERS. Do you have figures for your own hospital, Fred, how much your energy costs have gone up per kilowatthour in the last year?

Mr. SMITH. No, sir; I didn't put them in there.

Senator BUMPERS. I was just curious. I thought that was a pretty interesting figure, Bob, a staggering figure. Here we're talking about a 25-percent increase relative to Grand Gulf, and yours went up last year 21 percent with no Grand Gulf.

Larry, do you have figures for that?

Mr. LAZENBY. Yes, sir, but it's not real comparable. We converted one of our large chillers from steam to electric and we've had a tremendous increase in electric use just due to that conversion, not due to rate increases.

Mr. SMITH. No; I don't have—if I backed that out I could tell you, but I don't know offhand.

I didn't make the point, and I need to make the point, that up in the northwestern corridor, should Grand Gulf come in that hospitals there bidding, for example, with an HMO to provide care, have a discriminatory advantage over those of us who are on AP&L. So the imposition of a Grand Gulf situation places us at a 2- to 4-point margin of built-in costs that would have to be considered that people on SWEPCO or other services do not have to consider. And that line gets very fine, say, at the Springdale area, for example.

Senator BUMPERS. That's a point well made.

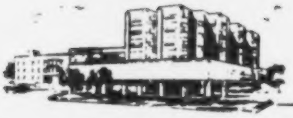
Gentlemen, thank you very much for your comments. I appreciate it very much.

[The prepared statements of Mr. Smith, Mr. Lazenby, Mr. Caplinger, and Mr. Russell follow:]

Hearing Clerk
c/o Senator Dale Bumpers
2527 Federal Building
Little Rock, AR 72201

RE: Committee on Small Businesses
Hearing Grand Gulf Nuclear Power Plant
Little Rock, Arkansas
December 7, 1984

SUBMITTED BY: Fred H. Smith
President and Administrator
Warner Brown Hospital
460 West Oak Street
El Dorado, Arkansas 71730
Phone: 501/863-2211



Warner Brown Hospital

FRED H. SMITH, FACHA
President

460 WEST OAK STREET
POST OFFICE BOX 1628
EL DORADO, ARKANSAS 71730

TELEPHONE 501/863-2000

The Federal Energy Regulatory Commission has published a decision on Grand Gulf Nuclear Power Plant. This decision will be detrimental to health care in the State of Arkansas and will be discriminatory in nature. Prospective pricing and diagnostic related group payment was introduced into health care for cost efficiency. The proposed increase in costs associated with Grand Gulf is uncontrollable by hospitals and is not recoverable by hospitals from federally funded patients. Working papers attached hereto on behalf of Warner Brown Hospital and others, indicate that the Grand Gulf proposal as published by the Federal Energy Regulatory Commission would increase the budgeted electrical bills for Warner Brown Hospital from $342,143 per year in 1984 to $440,187. The present cost of $10.84 per patient day would increase to $13.54. This is an increase of 25% or $2.70 per patient day. In our state there are 1,730,696 patient days of care projected for the year 1984. When multiplied by the $2.70 that is an increase of $4,672,880.

Arkansas Power and Light Company does not serve 40% of the hospital beds in the State of Arkansas. They are served by other electrical authorities not affected by Grand Gulf. Unless a "pass through" for Grand Gulf is arranged with the Secretary of Health and Human Services, a point of discrimination would be introduced into the State of Arkansas' health care. The measure adds two percentage points per day for the cost of electricity bringing the per diem cost from the current 7% to 9%. The prospective reimbursement system using DRGs has a forecast of an inflation rate of 4.5% over all. Here we see half of that going to pay for Grand Gulf.

If the Grand Gulf decision is allowed to stand, health care in the State of Arkansas needs your assistance along with the Secretary of Health and Human Services to allow a "pass through" as cited above. To control what is paid for a service and to not contain the cost element of that service is economic suicide. Thank you for your time and attention.

Fred H. Smith
President and Administrator
December 5, 1984

St. Vincent Infirmary
OPERATED BY THE SISTERS OF CHARITY OF NAZARETH
ESTABLISHED [illegible]
SVI
MARKHAM & UNIVERSITY • LITTLE ROCK, ARKANSAS 72201 • AREA CODE 501-661-3000

RECEIVED
DEC [illegible] 1984
W.B.H.

December 3, 1984

Mr. Fred Smith
WARNER BROWN HOSPITAL
460 West Oak Street
Little Rock, Arkansas 71730

Dear Mr. Smith:

In response to a request in the AHA President's Letter, the following is an estimate of the impact of the Grand Gulf Nuclear Power Plant surcharge on St. Vincent Infirmary. It is my understanding, based on the "Notice of Filing of General Rate Increase" by AP and L in the November 28, 1984, Arkansas Gazette, that a surcharge of $6.74 per kilowatt of demand will be charged to customers such as St. Vincent Infirmary. Our monthly power demand is approximately 4000 KW. This results in a monthly surcharge of about $27,000, or an annual charge of about $325,000. St. Vincent Infirmary expects to have about 160,000 patient days this fiscal year. This would mean an additional burden of $2.03 per patient day. This would bring our total electrical cost to about $10 per patient day.

In todays environment in the health care field, this is an unreasonable burden to ask hospitals and patients to bear.

Sincerely,

Larry Whitt

Larry Whitt
Assistant Administrator for Engineering/
Plant Maintenance

LW/eden

cc: Sister Margaret Vincent Blandford
Mr. A. Jack Reynolds

Ashley Memorial Hospital
CROSSETT, AR 71635

MEMORANDUM

TO Mr. Fred Smith
SUBJECT Grand Gulf → AMH

FROM
DATE 12/3/84

PER LOCAL AP&L MANAGER, RAY SHILLCUTT, ANTICIPATED MAXIMUM EFFECT OF GRAND GULF IS 30% INCREASE IN ELECTRIC RATES.

FOR 1985 AMH BUDGETED $83,000 AP&L EXPENSE. THIS INCLUDED A PROJECTED 7% RATE INCREASE IN JULY '85 PER THE LOCAL AP&L MGR. (BUT TODAY, 12/3, HE TOLD US THE JULY '85 INCREASE WILL "PROBABLY" BE IN THE 10%-15% RANGE!)

POTENTIAL EFFECT OF INCREASES:

'85 BUDGET - $83,000 ($8.80/ BUDGETED PATIENT DAY)

(1985 BUDGETED PATIENT DAYS - 9,450)

30% INCREASE FOR GRAND GULF, IF EFFECTIVE 1/1/85 - $24,900 ($2.64 PER BUDGETED PATIENT DAY)

IF GRAND GULF EFFECTIVE 7/1/85 COST ADD-ON: $12,450 ($2.64 PER PAT. DAY)

THE OVERALL POTENTIAL EFFECT WOULD BE TO RAISE TOTAL '85 AP&L COST TO AMH FROM $83,000 TO $107,900 (83 + 24.9).

OR RAISE COST TO PATIENTS FOR ELECTRICITY TO $11.44 PER PATIENT DAY!

CAN THE SICK CITIZENS OF ARKANSAS AFFORD THIS ??!

Magnolia Hospital
101 HOSPITAL DRIVE
P. O. BOX 629
MAGNOLIA, ARKANSAS 71753-0629

RECEIVED
DEC 5 1984
W.B.H.

December 4, 1984

Mr. Fred Smith, Administrator
Warner Brown Hospital
460 West Oak
El Dorado, AR 71730

Dear Mr. Smith:

In review of the Grand Gulf Nuclear Plant situation if costs were to be distributed to utility users of the state of Arkansas, I have reviewed annual expenditures for electricity and it comes to approximately $120,000.00. A fifty percent increase in cost, which is the annual estimate that Arkansas users would have to pay would increase our annual energy bill by $60,000.00. This figure divided by the hospital current patient rate would increase the daily charge to all patients by $4.84. However, as you know, fifty percent of the patient population in a hospital is represented by Medicare and Medicaid and non-pay which leaves actually less than half which would be supporting the total increase in the cost. This would then, in effect, represent a $9.68 per day increase in charges to patients.

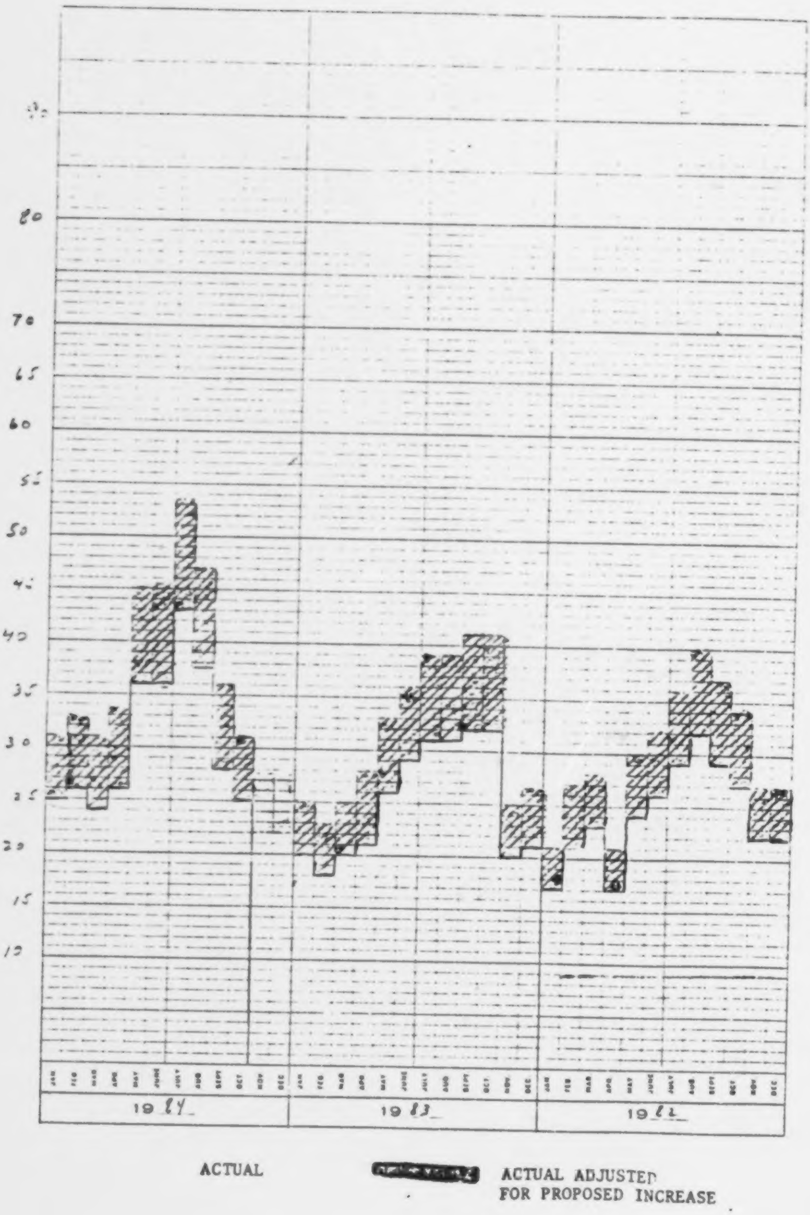
I hope that this information will be helpful to you.

Yours truly,

W. D. Hedden
Administrator

WDH/nw

IN THOUSANDS



NO 341-T30 DIETZGEN GRAPH PAPER
3 YEARS BY MONTHS

EUGENE DIETZGEN CO.
MADE IN U.S.A.

COSTS ASSOCIATED WITH ENERGY BEFORE & AFTER GRAND GULF	ACTUAL	PROPOSED
1982 Expenses	289,247 x 1.25	361,559
1982 Patient Days	÷34,634	÷34634
Cost per Patient Day	$8.35	$10.44
1983 Expenses	303,568 x 1.25	379,460
1983 Patient Days	÷ 32,706	÷32,706
Cost per Patient Day	$9.28	$11.60
Increase over previous year 11%		
1984 Expenses*	352,143 x 1.25	440,178
1984 Patient Days (Budgeted)	÷32,500	÷32,500
	$10.84	$13.54
Increase over previous year 16.8%		

*Actual expenses through October; Estimated expenses for November & December

STATEWIDE		
Cost per patient day 1982	$8.35	$10.44
Patient Days for State	x 1,705,234	x 1,705,234
	14,238,704	17,802,643
Proposed	17,802,643	
Actual (est.)	-14,238,704	
Increase in expense to hospitals supplied by AP&L	3,563,939	
Cost per patient day 1983	$9.28	$11.60
Patient Days	x 1,717,813	x 1,717,813
	15,941,305	19,926,631
Proposed Cost	19,926,631	
Actual Cost (est.)	-15,941,305	
Increase in Expenses to hospitals supplied by AP&L	3,985,326	
Cost per patient day 1984	$10.84	$13.54
Estimated Patient Days	x 1,730,696	x 1,730,696
	18,760,744	23,433,624
Proposed Cost	23,433,624	
Est. Actual Cost	- 18,760,744	
Increase to hospitals supplied by AP&L	4,672,880	

WARNER BROWN HOSPITAL

1982 Proposed	361,559	
1982 Actual	- 289,247	
Increased Cost	72,312	
50% Medicare Patients	x .50	
	$36,156	(Written Off to Contractual Allowance)
Increased Cost	72,312	
Bad Debt %	x .20	
	$14,462	(Uncollectible written off to Bad Debts)
	36,156	
	+ 14,462	
	$50,618	(Total Cost that Hospital Would Not Be Able to Recover from Patient Bills)
1983 Proposed	379,460	
1983 Actual	- 303,568	
	75,892	
	x .70	
	$53,124	(Total Written Off to Medicare Contractual Allowance and Bad Debt)
1984 Proposed	440,178	
1984 Est. Actual	- 352,143	
	88,035	
	x .70	
	$61,624	(Total Written Off to Medicare Contractual Allowance and Bad Debt)

BAPTIST MEDICAL SYSTEM

9601 INTERSTATE 630, EXIT 7
LITTLE ROCK, AR 72205-7299
501/227-2000

RUSSELL D. HARRINGTON, JR., F.A.C.H.A.
PRESIDENT

December 5, 1984

Senator Dale Bumpers
2527 Federal Building
Little Rock, AR 72201

RE: GRAND GULF HEARING - DECEMBER 7, 1984

Dear Senator Bumpers:

As requested by Senator Weicker in his November 27th letter regarding the Grand Gulf Hearing, I have attached 10 copies of my written testimony prepared to show the potential impact should the Federal Energy Regulatory Commission rule that Arkansas Power & Light should share in the cost of the Grand Gulf Nuclear Power Plant.

Also, as requested by Senator Weicker, I will have available an additional 25 copies of the statement at the hearing to be held December 7, 1984 in Little Rock.

Should you need additional information please let me know.

Sincerely,

Larry Lazenby
Vice President

LL:bc

BAPTIST MEDICAL SYSTEM
Arkansas Rehabilitation Institute, Little Rock • Baptist Medical Center, Little Rock • Memorial Hospital, North Little Rock • Twin Rivers Medical Center, Arkadelphia

BAPTIST MEDICAL SYSTEM

9601 INTERSTATE 630, EXIT 7
LITTLE ROCK, AR 72205-7299
501/227-2000

RUSSELL D. HARRINGTON, JR., F.A.C.H.A.
PRESIDENT

December 5, 1984

Committee on Small Business
Worthern Bank Building
200 West Capitol Avenue
Little Rock, Arkansas

RE: GRAND GULF HEARING - DECEMBER 7, 1984

Dear Committee Members:

Baptist Medical System is a not-for-profit corporation made up mainly of four hospitals. These are Baptist Medical Center, Memorial Hospital Arkansas Rehabilitation Institute, and Twin Rivers Medical Center. Baptist Medical System has a total licensed-bed capacity of 1,196.

BAPTIST MEDICAL CENTER

Baptist Medical Center is a 739-bed, tertiary care hospital located at 9601 Interstate 630, Exit 7, Little Rock, Arkansas, 72205 7299. With total admissions of approximately 30,000 per year, Baptist Medical Center is the flagship hospital of the Baptist Medical System.

MEMORIAL HOSPITAL

Memorial Hospital is a 260-bed facility located at One Memorial Drive, North Little Rock, Arkansas, 72114 1899. Memorial Hospital is owned by the City of North Little Rock and operated by the Baptist Medical System through a lease arrangement with the North Little Rock Hospital Commission.

ARKANSAS REHABILITATION INSTITUTE

The Arkansas Rehabilitation Institute is a licensed 140-bed institute designed to treat spinal cord injuries, stroke patients, and alcohol and drug abuse patients. Arkansas Rehabilitation Institute is located at 12th and Marshall Streets, Little Rock, Arkansas, 72201. Baptist Medical System is currently constructing a new facility for the Arkansas Rehabilitation Institute, to be located on the Baptist Medical Center campus.

TWIN RIVERS MEDICAL CENTER

Twin Rivers Medical Center is a 57-bed primary care hospital located in Arkadelphia, Arkansas at 3050 Twin Rivers Drive, 71923-0098. It is a new facility constructed by the Baptist Medical System to meet the healthcare needs of the citizens of Arkadelphia.

IMPACT

In his November 27th letter, Senator Weicker requested that I provide testimony at the December 7, 1984 hearing regarding the Grand Gulf Nuclear Power Plant. In that letter a statement was made that utility rates have a significant impact on the survivability and competitiveness of business and farmers in the State of Arkansas. In an effort to show the potential impact to the Baptist Medical System, I have prepared the following table using two basic assumptions. The first assumption is that as a result of the Federal Energy Regulatory Commission's decision we would experience a 25% increase in current rates. The second assumption is that Baptist Medical System would experience a 50% increase in rates. For purposes of comparison, I have used the 1985 budgeted dollar amount for electricity costs and broken it down by hospital. Please refer to the following table for additional information:

	1985 ELECTRICITY BUDGET	IMPACT 25% RATE INCREASE	IMPACT 50% RATE INCREASE
Baptist Medical Center	$1,562,000	$390,500	$781,000
Memorial Hospital	$ 470,832	$117,708	$235,416
Arkansas Rehab Institute	$ 379,500	$ 94,875	$189,750
Twin Rivers Medical Center	$ 151,340	$ 37,835	$ 75,670
TOTAL	**$2,563,672**	**$640,918**	**$1,281,836**

A further impact to the Baptist Medical System would be the recent changes in the reimbursement methodology utilized by the Medicare program. Effective January 1, 1984, the hospitals in the Baptist Medical System began receiving Medicare reimbursement under the Prospective Payment System. This is a prospective payment amount that will eventually be the same rate per diagnostic related group for all hospitals in the nation. Therefore there would be no possible way for the Baptist Medical System to pass any of this increased cost from the Grand Gulf Nuclear Power Plant to the Medicare program. Therefore the privately insured and the private-pay patients would have to pay 100% of any increase that the System may experience. This would therefore obviously have a substantial impact on the System hospitals' rate structure.

Sincerely,

Larry Lazenby
Vice President

LL:bc

Statement of James T. Caplinger
before the
Senate Committee on Small Business
December 7, 1984

Mr. Chairman, members of the Committee, my name is James T. Caplinger. I have been a small businessman in Arkansas since 1946, and starting in 1961, I have been a franchised automobile dealer in England, presently representing the manufacturers of Chevrolet, Oldsmobile, Chrysler-Plymouth and Dodge. In addition, I represent the Arkansas Automobile Dealers on the National Automobile Dealers Association Board of Directors.

First, I would like to commend Senator Bumpers for his efforts to give a voice to the people of the state on this important issue.

As a small businessman, I have to be active in all phases of our business. Even though our electric bill is only 7 percent of our fixed overhead costs, we, in the automobile business are vitally interested in the outcome of the Grand Gulf and system average costing case where Arkansas Power and Light would be required to join the other three (3) subsidiaries of Middle South Utilities in paying for present and future plants in the system.

Our cost per kilowatt-hour has increased 214 percent in the last 10 years, however, our other fixed expenses have increased also during these years, so we have not been overly concerned with this expense. Now we learn that after Arkansas Power and Light has built two (2) nuclear and two (2) coal fired generating plants in Arkansas, we are to share in the cost of the Grand Gulf nuclear generating plant in Mississippi despite the fact that Arkansas Power and Light is a party to an agreement with the other subsidiaries of Middle South System specifying that Arkansas Power and Light would take none of the power.

Regardless of the outcome of the Grand Gulf case, we must pursue a favorable decision in the system average costing case. This concept could increase our rates 50 percent. If we won the first but lost the second case, it could be winning the battle and losing the war.

We must be careful not to win the battle and lose the war, which would be the case if the Federal Energy Regulatory Commission (FERC) found in favor of the system average costing concept. This concept would increase our rates greatly, most estimates are in the 50 percent range.

The automobile business is a very low margin of profit business, so all increases hurt us, but my fear is a different one. A large increase in residential rates would case a family with a tight budget to delay purchasing a new or used car. I remember, too well, when the average age of cars on our streets and highways was seven years caused by high interest rates. Every dollar of increase for power to our farmers on irrigation wells, dryers and storage warehouse for our rice and soybeans or on the gins that handle our cotton weakens the farmers' ability to buy equipment he needs, some of which would be purchases of cars and trucks. Increases to large industrial users would cause plants to lay-off workers or even close, which would take these people out of the car market. I shudder to think what our hospitalization insurance costs would be if the rates charged hospitals were increased 25 to 50 percent.

I don't want to cry wolf and lead you to believe that the increases in electric power rates will put automobile dealers out of business. After surviving gas shortages, high interest rates and strikes of the last 10 years, any rate increase will hurt, but a large increase will be devastating to our business and I assume to other businesses as well.

Thank you for allowing me to comment.

JTC:lp

Statement of Bob Russell, President, Arkansas Automobile
Dealers Association, before Committee on Small Business
December 7, 1984

Senator Bumpers and members of the committee, Let me first thank you for holding this hearing today and serving as a sounding board for a very important economic issue to our state.

As President of the Arkansas Automobile Dealers Association and the Greater Little Rock Chamber of Commerce, I come in contact with or represent a large number of small businesses in the state of Arkansas. No matter where I go, when the issue of Grand Gulf is raised, almost without exception, the response is the same. We cannot afford an additional increase of 36-42% in our utility costs.

Over the last ten years, Arkansas rate payers have paid for three power plants in our state, with the capacity to meet the needs of Arkansas customers for many years to come.

The complexities, questions, and the emotional issues of Grand Gulf only add to the negative responses we hear. Any rate increase which would go for subsidizing any power plant from which we receive no allocation and for which we have no need, is unacceptable to the small business man in the state of Arkansas.

WHILE IT'S TRUE THAT THE PRICE OF THE NEW CAR HAS RISEN STEADILY OVER THE LAST TEN YEARS, PROFIT MARGINS HAVE DECREASED JUST AS STEADILY. DEALERS, LIKE ALL SMALL BUSINESSMEN, HAVE TO WORK HARDER TO MAKE A PROFIT AND HARDER STILL TO HANG ON TO IT.

WITH A COMBINATION OF HIGHER DOWN PAYMENTS AND SALES TAX ON HIGHER PRICED AUTOMOBILES, POTENTIAL CUSTOMERS ARE FINDING IT HARDER TO BUY A NEW CAR AND TO ARKANSANS LIVING IN A RURAL STATE WITH POOR PUBLIC TRANSPORTATION, A DEPENDABLE CAR IS A MUST.

IN ADDITION TO THE RISING COST, THE TECHNICAL COMPLEXITY OF A 1985 AUTOMOBILE HAS EFFECTED SERVICING AND MAINTAINING THE AUTO PROPERLY, BOTH TO CONSUMER AND DEALER.

DEALERS HAVE HAD TO HIRE HIGHLY TRAINED PERSONNEL, PURCHASE VERY EXPENSIVE DIAGNOSTIC EQUIPMENT AND EXPAND HIS PARTS INVENTORY CONSIDERABLY. THIS HAS HAD A SIGNIFICANT FINANCIAL IMPACT ON SERVICE DEPARTMENTS AND THE COST THE CONSUMER MUST BEAR.

THE MATH IS SIMPLE. FIXED EXPENSES, SUCH AS UTILITY COST MUST BE PASSED ALONG TO THE CONSUMER. THIS ONLY INCREASES THE FINANCIAL BURDEN OF THE NEW CAR OWNER.

A UTILITY INCREASE OF THIS MAGNITUDE COULD BE THE STRAW THAT BREAKS THE CAMELS BACK.

ARKANSAS AUTOMOBILE DEALERS SPENT AN ESTIMATED $4,300,000 FOR HEAT, LIGHT AND POWER LAST YEAR. THE AVERAGE EXPENDITURE PER DEALER WAS $12,146.00. I THINK YOU CAN SEE THE IMPACT A $1,500,000 TO $1,800,000 INCREASE WOULD HAVE ON OUR BUSINESSES IF THE FERC ASSESSES ARKANSAS FOR GRAND GULF OR RULES IN FAVOR OF THE SYSTEM AVERAGE COST CASE.

IN CONCLUSION, AS PRESIDENT OF THE ARKANSAS AUTOMOBILE DEALERS ASSOCIATION, WE WOULD LIKE TO URGE THE COMMITTEE TO CLOSELY MONITOR THE UPCOMING PROCEEDINGS AND TO USE WHATEVER INFLUENCE YOU MAY HAVE TO PROTECT SMALL BUSINESSES IN ARKANSAS FROM THE GRAND GULF ASSESSMENTS AND FOR THE FERC TO CAREFULLY EXAMINE THEIR POSITION IN WHAT PROMISES TO BE A PRECEDENT, NOT ONLY FOR ARKANSAS, BUT THE NATION.

THANK YOU.

Senator **Bumpers**. Our next panel is panel No. 7: Bruce Neimeth, Monark Boat Co. in Monticello; Ed Ligon, Orbit Valve Co., here in Little Rock; Joe Becton, American Transportation Co. in Conway; and Walt Koehler, Koehler Bakery here in Little Rock. Would you gentlemen come around?

Bruce, we'll do like we've been doing here. Your name is first on the list, so why don't you start first?

STATEMENT OF BRUCE NEIMETH, MONARK BOAT CO.; ED LIGON, JR., ORBIT VALUE INTERNATIONAL, INC.; JOE BECTON, AMERICAN TRANSPORTATION CORP.; AND WALTER H. KOEHLER, KOEHLER BAKERY

Mr. **Neimeth**. Thank you, Senator. I'm Bruce Neimeth, president of the Monark Boat Co. The Monark Boat Co. employs 340 people in southeastern Arkansas. We have annual sales of about $22 million this year.

Our employment and sales revenues are increasing at a rate in excess of 20 percent a year, and I might project that it will be over 20 percent this year. That makes us, we believe, one of southeast Arkansas' fastest growing industrial businesses today. The majority of this growth is coming from the rapid expansion of the military and commercial segments of our business, which is involved in the manufacture of boats from 17 to 65 feet in length.

We are presently building boats for the Navy, the Army, and the Coast Guard, as well as the Governments of Venezuela and Nigeria, through third-party sales. In addition we are either bidding or negotiating on a direct basis, or through the U.S. Defense Department's Foreign Military Sales Program, working with Egypt, Bangladesh, Cameroon, and the United Kingdom on both military and commercial vessels.

In most, if not all, of these cases, these programs are under small business set-asides, and are firm fixed price contracts with no available recovery of unplanned cost escalations. At the same time most, if not all, of the contracts are multiyear with total elapsed time from bid development to actual completion and delivery time running over 30 months. On top of this, the market worldwide is extremely competitive.

At present, our cost of electricity runs around 7 percent of our total manufacturing overhead. In the last 12 months, the actual cost was around $124,000. The military and commercial operations require the greatest use of electricity due to the processing of metals through machining and welding. Continued growth in this area requires investments in new equipment that increase productivity and make us more competitive, but at a significantly higher base electric cost to the company. Without the Grand Gulf situation, Monark is using projected electric utility rate increase averaging 10 to 15 percent annually. And that is, I might add, over the next 5 years, and those figures come through working with our AP&L people.

However, if the FERC rulings on both the Grand Gulf nuclear powerplant and the future systems network involvement do go against us as an AP&L customer, Monark has got to take a look at two particular areas of impact.

First, an immediate loss of competitive position against companies in California, Wisconsin, Florida, South Carolina, and Louisiana that will immediately retard our growth and virtually do away with our investment ability.

A couple of quick examples of how competitive our market is. We recently lost a Navy contract for $2.3 million by four-tenths of 1 percent. And the nearest five competitors were all within 1 percent of each other. Another Navy contract for over $5 million that we appear to have won was by 3.9 percent. Additional contracts are successes coming within about 1 percent of our nearest competitor. So there isn't a lot of leeway in pricing.

The added cost of electricity as a result of these two subjects that are being discussed by the committee, would have eliminated Monark from $10 million of new business that we presently have.

The second area of impact is immediate and severe erosion of our operating profits on multiyear, firm fixed price contracts that we have today, but do not include—nor were we able to justify during bidding—a 50-percent added cost of electricity. While this erosion would not cause all the contracts to become losers, it would totally exclude our ability to reinvest in future technology and growth. And again, a couple of very quick examples of these contracts; we have a $6 million contract in Venezuela that runs 48 months from bid to completion with no opportunity for escalation. We have three Navy contracts that come out to a little over $10 million that run from 30 to 48 months with no opportunity for escalation. They are firm fixed price contracts.

Finally, the ability to continue to bring overseas business to the United States, and to Arkansas, as well as to keep U.S. military and commercial sales contracts from going back overseas where they had been in recent years, requires that we remain competitive in all areas while funding technological advancements and increased skill levels of our workers in southeast Arkansas. An unplanned increase of 50 percent in electric rates that causes our basic costs to increase 7 percent precludes all of that.

We strongly urge that all due considerations be given to this type of nonproductive cost escalation and its true impact on Arkansas, a State that is working to develop a balance to agriculture and semiskilled production workers with the development of skilled workers and high tech industries that require controlled costs and long-term business commitments.

Thank you for your interest and your consideration, Senator.

Senator BUMPERS. Bruce, that is one of the most dramatic statements that has been made here today. That is powerful, obviously. It's like you say; it may not put you out of business, but it sure is not going to help keep you in it.

Mr. NEIMETH. Right.

Senator BUMPERS. Incidentally, Bruce, which one of those contracts that we worked on so hard and lost—was that No. 2, there?

Mr. NEIMETH. Yes, sir.

Senator BUMPERS. Ed.

Mr. LIGON. My name is Ed Ligon and I am president of Orbit Valve International, Inc., here in Little Rock.

Orbit manufactures high quality steel valves for the worldwide oil and gas and hydrocarbon processing industries. We sell primarily to major oil companies and to engineering and construction companies, such as Brown and Root & Fluor. Approximately 60 percent of our sales are in the United States and the remaining 40 percent are sold throughout the free world wherever there is oil and gas production and processing.

Our competition within the United States consists primarily of other U.S. valve manufacturers. However, the Japanese have made strong inroads during the last several years, primarily due to very aggressive price discounting on their part.

Outside the United States, we compete primarily with European and Japanese manufactured valves, as well as foreign subsidiaries of our U.S. competitors.

Our primary manufacturing facility is here in Little Rock, where we employ 450 people. We also have a manufacturing facility in the United Kingdom, just west of London, which employs right at 100 people. We are in the process of building up their manufacturing capabilities, and I will explain this later.

The subject today is the impact of a 50-percent increase in utility costs on Arkansas business. In our case we paid AP&L $385,000 for electricity during our last fiscal year, which ended September 30. This was 7 percent of our manufacturing conversion costs. So a 50-percent increase in electrical rates would raise our costs by 3½ percent.

As a matter of interest, our cost of electricity was only 3.9 percent our conversion cost just 3 years ago; it's up to 7 percent now, so we've seen an 80-percent increase in this cost in a very short time.

The oil and gas industry around the world is still in a recession, and we estimate it will be sometime in the 1990's before oil and gas prices strengthen. Because of this, we cannot pass along any of our cost increase to our customers. In fact, we increased our valve prices in August of this year by 5 percent, and this is the first price increase that we have had in 3 years. Our hope is that we'll be able to increase our prices as fast as the industrial rate of inflation in the United States, but it's doubtful.

So we would have to absorb any additional cost of utilities. Short-term, this would not cause any immediate loss of jobs, but it would cause a loss of profits, and from what we consider, they are already meager. Long term, however, it would move jobs from Little Rock to the United Kingdom. And let me explain.

Outside the United States, we must compete with European and Japanese manufacturers, and that's very difficult to do, primarily because of the strong dollar. In late 1981 or early 1982, the British pound sterling was worth around $1.85, and we consider this as about par between the two currencies. Today the pound sterling is worth around $1.25. To our United Kingdom company, this means that the United States parts and valves that they buy from us cost them almost 50 percent more than they did 3 years ago. To an international customer spending United States dollars, and he may be anywhere in the world, this means that United Kingdom-built Orbit valves cost 32 percent less than United States-built Orbit valves, assuming they were around the same price in 1981. Now, for this reason, we are now using our U.K. company to supply our valves to customers in Canada and South America, and these markets have historically been served from our Little Rock plant because of the proximity.

Needless to say, to our customers in the Middle East, Africa, Southeast Asia, Indonesia, and other markets, that have traditionally split their business between the United States and our United Kingdom facilities, they now find the United Kingdom a much more economical place to purchase their valves.

We have been able to contine to compete in the U.S. market due to increases that we have made in our productivity in Little Rock, but primarily due to the level of services we furnish our customers. Most of them have been willing to pay a premium for our valves as opposed to buying a Japanese or European product because of this high level of service.

We have organized our United Kingdom subsidiary so that they locally source and machine the large castings that are used n valves, and we ship all of the internals from Little Rock to them because these parts are usually made in large production runs and often on very specialized equipment. Our United Kingdom company has just completed cost studies, however, that show that they can acquire many of the parts locally that we now furnish them at from 50 to 90 percent of our Little Rock out-of-pocket manufacturing costs. And this is before adding the freight and duty from Little Rock to England. Again, this is primarily due to the current strength of the dollar.

So, 3½-percent cost increase doesn't sound all that much, but it is another one of those factors that is further tipping the scales in favor of our United Kingdom manufacturing. So if we were to suffer a large increase in electrical rates and if the dollar continues to be strong, my guess would be that as much as 20 to 25 percent of our Little Rock production would be shifted to our United Kingdom subsidiary over the years.

As far as I am concerned the proposed rate increase on Arkansas customers not only defies logic, but would also have a very adverse effect on the number of people that we employ here at our Little Rock headquarters.

Senator, I appreciate your time and your consideration on this matter.

Senator BUMPERS. Thank you, Ed. That's a fine statement. It puts you in the category of Reynolds, where you want to be a good citizen of this State and you're not going to fold, but you're just going to transfer business to someplace else.

Mr. LIGON. We really don't have any choice. We still have to compete or we'll lose business everywhere.

Senator BUMPERS. Well, you certainly make the point dramatically and well.

Joe.

Mr. BECTON. Thank you, Senator.

My name is Joe Becton and I'm chief operating officer for American Transportation Corp. in Conway.

American Transportation Corp. manufactures buses—school, government, and commercial. The bus business is very competitive and orders are awarded on a bid basis. Thus, all areas of cost control are critical and are monitored on a day-to-day basis. The cost of utilities is vital, and we are concerned about how the decision by

FERC on the Grand Gulf nuclear plant and the payment for various other new plants within the Middle South Utilities Co. will affect our competitive rates.

The major portion of the electrical power consumed at American Transportation Corp., $269,000 in 1984, is directly related to the production of the bus. All direct production cost increases worsen our competitive situation. The States in which our competitors' manufacturing plants are located are Indiana, Georgia, and North Carolina. Based on January 1983 figures, their monthly rates compared to American Transportation's of $16,880 as follows: Indiana, $16,948; North Carolina, $16,892; and Georgia, $19,842.

This analysis shows that current electric power cost is competitive with two other bus manufacturers. The percent increase by AP&L would be a direct negative cost impact by the amount of increase of electrical power rates.

Fortunately, the industrial and residential community of Conway is affected less than the rest of Arkansas, due to the foresight of Conway Corp., our city-owned utility company. Conway Corp. purchased 2 percent interest in the White Bluff plant and 2 percent of the Independence plant in earlier years; 90 percent of Conway's requirements will come from these two facilities in 1985, with only 10 percent required from AP&L during peakloads. The worst situation that can develop, as I interpret the information provided, would be for AP&L rates to increase 56 percent, resulting in an increase of 17 percent through Conway Corp. to American Transportation Corp. The least harmful situation would be a 6-percent rate increase by Conway Corp.

Another concern I have is for the people who work in Conway but do not live within the area served by Conway Corp. A 56-percent increase in their rates will affect them and their standard of living and result in a negative effect on American Transportation.

Recruiting management personnel to Arkansas will become more difficult as the proposed rate increases push up the cost of living. An example can be seen in a comparison of my residential electrical bill from Waterloo, IA, where I still have a home, with rates in the Conway area. The Waterloo bill for October was $106.57. In Conway the same kilowatthours cost approximately $105; outside of Conway, $129.15 or 23 percent more. With the increase, the electrical bill could be as much as $122.85 in Conway and $201.47 outside the city.

A 17-percent increase in electrical bills is believed to be enough to stop growth and development. If American Transportation were to build another manufacturing facility today, the two cases in question would encourage us to consider a location outside of Arkansas.

The obvious conclusion I have drawn is that the court ruling in the short term, 10 years, is detrimental to Arkansas, its industries, and its residents.

Thank you, Senator.

Senator **Bumpers**. Thank you, Joe.

Walt.

Mr. **Koehler**. Senator, thank you for inviting me to be here.

My company, Koehler Bakery Co., of North Little Rock, is a family-owned company that was founded in 1919. And since my service in the Navy in World War II, my entire working life has been spent in this business. As of now I have two sons who are co-owners and full-time employees of the company.

Our sales volume is approximately $6.5 million a year, and at least 80 percent of this is for sale of frozen products, and most of that outside the State. We operate five freezers, the largest of which is 52 feet by 94 feet with an 18-foot ceiling. When the present construction project that we are in now is completed—we are now in phase 2—we will have a plant of approximately 55,000 square feet.

We have a contract to copack frozen cakes for a very large national company, and this is a significant part of our business. This year, as we have had before, we have won the bid to supply cakes for the Fort Knox facility and all the subsidiaries around it, which amounts to about a truckload of cakes a week. This is on a bid basis.

Everything we do is pretty well dependent upon our electrical power because of the freezing, and to a lesser extent on gas, of which about 75 percent of the products that we make has gone through the ovens; the others are frozen in a raw state. I didn't get exact figures on the percent of our electrical bills, of our fixed costs, but while I was here I made a quick calculation and estimate and I run 32 to 35 percent.

[Subsequent information was received and follows:]

Koehler Bakery Company
P.O. BOX 15910, NORTH LITTLE ROCK, ARKANSAS 72231
(501) 835-4946

	1984 July/Dec	1983 July/Dec	1983-84 June/July
Electric Costs to Fixed Manufacturing Expense	20.2%	15.9%	18.3%
Total Utility Costs to Total Fixed Manufacturing Expense	30.2%	28.6%	27.1%

NOTES:

1. My estimate at the Little Rock Senate Hearing was incorrect. I mistakenly recalled the total utility costs, rather than only the electric costs.
2. Koehler Bakery fiscal year is July thru June.
3. Koehler Bakery volume increased greatly since February of 1984, the result of large increases in frozen bakery products.
4. Total dollars paid for Electric Energy increased by 43% in 1984 (July/Dec Periods) as compared with the same period in 1983.

Mr. **Koehler**. The proposed increase would really severely affect us in this regard. We are competing with interstate companies and it would be extremely difficult to do this and to remain competitive in this market and maintain this copacking arrangement, which is based on our ability to efficiently produce products for resale by another in the wholesale market. That's a tough proposition.

The added burden would effectively wipe away a large part of the work we have done over the past years in trying to build our company. What a sad lot it would be for those people in Arkansas. They are people now who are having a very difficult time—I mean both commercially and personally—to maintain their present positions and comforts with the present rates, and I wonder how these people can cope with added increases of 36 to 50 percent.

My understanding, generally, is that Arkansas Power & Light Co., through an agreement with the Middle South system, has agreed that they will take no power produced by the Grand Gulf facility. I'm not certain whether Arkansas Power & Light had a vote, or even a hearing, on whether the Grand Gulf plant should be built; but I do know that the Public Service Commission of Arkansas never reviewed the need for this Grand Gulf plant in the first place, nor did they have any voice in what the effect would be.

A drastic mistake has been made. A mistake was wrought by the Middle South Utility people in obligating the people of Arkansas and denying them the rights of hearing, approval, or control. Our founders had trouble with a similar thing in the 1770's, the Stamp Act. Arkansans are now being asked to pay a disproportionate share of the cost of the facility from which they will receive, as I understand it, little or no benefit.

Since 1946, our company has grown from a $120,000 business to its present size. Every bit of the progress carried a significant price tag. We employ 140 people, and for that reason alone we feel that we are of importance to our society and to our State. We hope we will not have to attempt to survive with a fraction of our present number of employees. Thank you, Senator.

Senator **Bumpers**. Thank you, Walt. I hope you don't have to, too. That's an excellent statement, Walt; I'm really surprised that 80 percent of your sales are frozen products. I had no idea you were——

Mr. **Koehler**. We've got five freezers.

Senator **Bumpers**. You're spending almost as much for electricity as you do for your product, aren't you?

Mr. **Koehler**. No, no. But it is significant. We have this 52- by 84-foot freezer which we built in 1981; we've got a 40- by 60-foot, we've got the 12 by 50, and the 20 by 24, and smaller ones, of course.

Senator **Bumpers**. Well, you said you didn't know what percentage of all your production costs your electricity was?

Mr. **Koehler**. I know it, but I didn't——

Senator **Bumpers**. That's what I meant; of course, I'm sure you know it. But I was just wondering if you have any idea right now, off the top of your head, how much your electricity is costing you, for example, for 1984 as compared to 1983?

Mr. **Koehler**. I'm sorry, Senator, I didn't look that up. I'd be glad to send you that information, however.

Senator BUMPERS. Ed, do you have that figure for your plant?

Mr. LIGON. Yes, but not for 1983, no. I can send it to you.

Senator BUMPERS. Well, do you have a comparison of how much it's gone up in the last 12 months?

Mr. LIGON. No, I compared it to 1980. Three years ago, our cost of electricity ws 3.9 percent of our conversion cost, whereas it's now 7 percent. And those are variable costs, so we've had an 80-percent increase in 3 years.

Senator BUMPERS. Bruce, do you have those figures?

Mr. NEIMETH. Since 1980 our cost is up approximately 50 percent, actual cost per kilowatthour.

Senator BUMPERS. It seems to me like we're paying pretty well, even without Grand Gulf.

Mr. LIGON. It's a big increase, all right.

Senator BUMPERS. Yes.

Ed, do you and Bruce and Walt—Joe, you're in a little separate situation because you're on the Conway Corp. facility, their system up there—but do the rest of you have any ideas about what, if anything, you might do to further conserve electricity or do you feel like you've done about all you can do, that it's not productive, not cost efficient to do any more than you've done?

Mr. NEIMETH. If I could make a comment, first.

Senator BUMPERS. Sure.

Mr. NEIMETH. We have the opposite situation. We 're trying to become automated, and therefore we're willingly lookingly to adding about 20 percent to our basic cost of utility usage and trying to do it by buying American-made machinery. So we're not really looking at conserving. The only alternative we have is to start buying machinery from Sweden and Germany, and at this point——

Senator BUMPERS. Which is more energy efficient?

Mr. NEIMETH. Yes; the equipment we can buy from overseas is significantly more efficient in its design; and therefore, as a result, in the amount of power it uses. But our business is becoming more energy intensive as we are forced to automate to be more competitive, so we don't really see a conservation approach at this point.

Mr. LIGON. We're about in the same position. I don't know of anything else we could do. We started really looking at all energy costs in the late 1970's, when energy became so expensive, and I know of nothing we could do. But we have somewhat the same trend. Any further work we do is toward a more automated factory which is generally run by electricity, and I would assume—I'm guessing—80 percent of our electrical costs are to run machine tools or associated equipment. So any direction that we move will be toward additional consumption of electricity.

Senator BUMPERS. Now you have a problem of those labor savings that you're trying to achieve being offset by the increase in cost of power to run the facility?

Mr. LIGON. Exactly. And ours is not only labor-saving cost as much as it's spending money in order to achieve a higher level of quality, a higher level of productivity.

Mr. NEIMETH. Let me, just as a comment—as you know, Senator, we're getting more involved in the defense contract work, and the quality standard requires a much more finite product. So electricity is the key. We're not replacing workers at all; what we're doing is actually expanding the work force by bringing more work in. But the machinery and the automation is energy intensive totally, so it's a major impact.

Senator **Bumpers**. Again, it's discouraging to fight for that productivity increase and then see it eaten up in utility costs.

Mr. **Neimeth**. Yes; it is.

Mr. **Koehler**. Senator, we can't do much about our freezers except insulate them because you've got to maintain these temperatures. For example, in one of our freezers, the 40 by 60, we're maintaining that at a minus 20 degrees which really chews it up pretty fast. We have to do this because one of the products we make has to be frozen and then sliced with a machine, and it has to be brought down. We do have an energy control box that controls the air-conditioning and various other electrical things that we can control, and believe it or not, about a week ago we planted 17 very large flotinas on the side of our large freezer so the summer sun won't hit on the——

Senator **Bumpers**. What is a flotina, Walt?

Mr. **Koehler**. I'm sorry, that's a plant, a large green plant, so that we will shade that to some extent and help to conserve the energy that goes in that particular box.

Senator **Bumpers**. Walt, I've been through all these fellows' plants but I've never been through yours. I'm going to come out there and see that.

Mr. **Koehler**. I'd like for you to.

Senator **Bumpers**. I've got a sweet tooth, anyway. [Laughter.]

Gentlemen, thank you all very much for coming and these excellent presentations.

[The prepared statements of Mr. Neimeth, Mr. Ligon, Mr. Becton, and Mr. Koehler follow:]

MonArk·Boat Company

P. O. Box 210
Monticello, Ark. 71655
United States of America
Phone 501-367-5361
Telex 783028

December 4, 1984

The Committee on Small Business
Hearing Clerk
c/o Senator Dale Bumpers
2527 Federal Building
Little Rock, Arkansas 72201

Re: Grand Gulf Nuclear Power Plant - FERC

The MonArk Boat Company employs approximately 340 people in Southeastern Arkansas with projected annual sales in 1985 of over 22 million dollars.

Employment and sales revenues are presently increasing at a rate in excess of 20% per year, which makes MonArk one of Southeast Arkansas' few growing industrial businesses today. The majority of this growth is coming from rapid expansion of the military and commercial segment, which includes the manufacture of vessels from 17 to 65 feet in length.

We are presently building vessels for the U.S. Navy, U.S. Army, U.S. Coast Guard, Government of Venezuela (3rd party sales), Nigeria (3rd party sales). In addition we are either bidding or negotiating on a direct basis, or through the U.S. Defense Departments Foreign Military Sales Program, with Egypt, Bangledesh, Camaroon and the United Kingdom on both military and commercial vessels.

In most, if not all, of these cases, these programs are under small business set-asides, and are firm fixed price contracts with no available recovery of unplanned cost escalations. At the same time, most of the contracts are multi year with total elapsed time from bid development to actual completion and delivery running over 30 months. On top of this the market worldwide is extremely competitive.

At present, our cost of electricity runs at 7% of our total manufacturing overhead, with the last twelve months, through October, actual cost being $124,204.42. The military and commercial operations require the greatest use of electricity due to the processing of metals through machining, welding and power assembly. Continued growth in this area requires investments in new equipment that increase productivity and at the same time make us more competitive but at a significantly higher base electric cost. Without the Grand Gulf situation, MonArk is using projected electric utility rate increases averaging 10-15% annually.

However, if the FERC rulings on both the Grand Gulf Nuclear Power Plant and the future systems network involvement go against the AP&L customers, MonArk must look at the following impact areas:

Continued on Page 2 . . .

A. An immediate loss of competitive positioning against companies in California, Wisconsin, Florida, South Carolina and Louisiana that will immediately retard our present growth activities and related investments.

Examples of Recent Bids:

1. U.S. Navy Contract - 17 units - 33-Ft. in length @ $136M = $2.3 million. MonArk lost this bid by $640.00 per unit of .04%.

2. U.S. Navy Contract - 69 units - 26-Ft. in length @ $77M = $5.3 million. MonArk is low bidder by approximately $3,000 per unit or 3.9%.

3. U.S. Navy Contract - 14 units - 35-Ft. in length @ $213M = $3.0 million. MonArk won this bid by less than 1%.

4. Haliburton West Africa - 4 units - 48-Ft. in length @ $345M = $1.38 million. A sole scurce bid based on meeting pre-set cost level. MonArk accepted reduced profit margin.

NOTE: The added electric costs would have eliminated MonArk from almost $10 million in new business.

B. An immediate and severe erosion of operating profit margins on multi-year firm fixed price contracts that do not include nor could not include a justified 50% additional increase in electric rates in the next few years. While this erosion would not cause the company to operate in a loss on all contracts, it would almost totally exclude the company's ability to re-invest in future technology and growth.

Example of Long Term Contracts on Firm Fixed Price:

1. Venezuela Government - 37 military vessels - $6.0 million. 48 months from firm bid to contract completion.

2. U.S. Navy - 41 E.O.D. 23-Ft. vessels - $2.5 million. 30 months from firm bid to contract completion.

3. U.S. Navy - 69 Personnel carriers - 26-Ft. vessels - $5.3 million. 36 months from firm bid to contract completion.

4. U.S. Navy - 14 Workboats, 35-Ft. in length - $3.0 million. 30 months from firm bid to contract completion.

5. G.S.A Contract - 17-23 Ft. vessels - Est. value $1.0 million. Up to 36 months pricing with up to 5% escalation overall allowed.

Finally, the ability to continue to bring overseas business to the U.S., as well as to keep U.S. military and commercial sales contracts from going back overseas requires that we remain competitive in all areas while funding technological advancements and increased skill levels of our workers. An unplanned increase of

Continued on Page 3 . . .

50% in electric rates that causes our basic costs to increase 7% precludes all of the above.

We strongly urge that all due consideration be given to this type of non-productive cost escalation and its true impact on Arkansas, a state that is struggling to develop a balance to the agricultural and semi-skilled production work force through the development of skilled and high tech industries that require controlled costs and long term business commitments.

Thank you for your consideration.

Respectfully,

Bruce

Bruce Neimeth
President

BN/pr

ORBIT

ORBIT VALVE INTERNATIONAL, INC.

November 28, 1984

Senator Dale Bumpers
2527 Federal Building
Little Rock, AR 72201

Dear Senator Bumpers:

Thank you for your invitation to testify at the December 7th, 1984 meeting of the Committee on Small Business which will conduct a hearing in Little Rock to consider the potential impact the Grand Gulf nuclear power plant may have on small businesses and farmers in Arkansas.

My testimony as to the impact of a significant increase in utility rates on our company is attached.

Thank you for this opportunity.

Sincerely,

Ed Ligon, Jr.
President

/bd

Attachment

7500 INTERSTATE DRIVE • POST OFFICE BOX 9070 • LITTLE ROCK, ARKANSAS 72219, U.S.A. • (501) 568-6000. TELEX 536-230 OR 6903 001

ORBIT

ORBIT VALVE INTERNATIONAL, INC.

December 7, 1984

To: United States Senate
Committee on Small Business

Gentlemen:

My name is Ed Ligon, Jr., and I am President of Orbit Valve International, Inc.

Orbit manufactures high quality steel valves for the world-wide oil and gas and hydrocarbon processing industries. We sell primarily to major oil companies and to engineering and construction companies. Approximately 60% of our sales are in the U.S. and the remaining 40% are sold throughout the free world wherever there is oil and gas production and processing.

Our competition within the U.S. consists primarily of other U.S. valve manufacturers. However, the Japanese have made strong inroads during the past several years, primarily due to heavy price discounting on their part.

Outside the U.S. we compete primarily with European and Japanese valve manufacturers, as well as the foreign subsidiaries of our U.S. competitors.

Our primary manufacturing facility is here in Little Rock where we employ 450 people. We also have a manufacturing facility in the U.K. just west of London where we employ 100 people, and we are in the process of building up their manufacturing capability for reasons I will explain later.

The subject today is the impact of a 50% increase in utility costs on Arkansas business. In our case we paid AP&L $385,000 for electricity during our fiscal year ending September 30, 1984, which was 7% of our manufacturing conversion cost. A 50% increase in electrical rates, therefore, would raise our costs by 3 1/2%.

Obviously, this would not put us out of business, but it would definitely add pressure to what is already a severe problem.

As a matter of interest our cost of electricity was only 3.9% of our manufacturing conversion cost just three years ago, so we have seen an 80% increase in this cost in a very short period of time.

7500 INTERSTATE DRIVE • POST OFFICE BOX 9070 • LITTLE ROCK, ARKANSAS 72219, U.S.A. • (501) 568-6000, TELEX 536-230 OR 6903

The oil and gas industry around the world is still in a recession and we estimate it could be well into the 1990's before oil and gas prices strengthen. Because of this we cannot pass along any costs to our customers. In fact, we increased our prices in August of this year by 5%, and that is the first price increase we have taken in three years.

We would have to absorb any additional cost of utilities. Short term, this would not cause any immediate loss of jobs, but it would cause a loss of what are already meager profits. Long term, however, it would move jobs from Little Rock to the U.K. Let me explain why.

Outside the U.S., we must compete with European and Japanese manufacturers and that's very difficult to do, primarily because of the strong dollar. In late 1981 and early 1982 the British Pound Sterling was worth around $1.85, which we consider about "par" between the two currencies. Today a Pound is worth about $1.25. To our U.K. company this means our U.S. parts and valves cost almost 50% more than they did three years ago. To an international customer spending U.S. Dollars, this means U.K. built valves cost 32% less than U.S. built valves, assuming they were the same price in 1981. For this reason we are now using our U.K. company to supply valves to our customers in Canada and South America whereas these markets have historically been served from our Little Rock plant.

Needless to say, our customers in the Middle East, Africa, Southeast Asia and other markets that traditionally have split their business between our U.S. and U.K. factories, now find the U.K. a much more economical place to purchase their valves.

We have been able to continue to compete in the U.S. market due to increases we have made in our productivity and to the high level of services we furnish our customers. Most of them have been willing to pay a premium for our valves as opposed to buying a Japanese or European product.

We have organized our U.K. subsidiary so that they locally source and machine the large castings that are used in our valves. We ship all of the internals from Little Rock because they are made in large production runs and often on specialized machines. Our U.K. company has just completed cost studies, however, that show they can acquire many of the parts locally at from 50% to 90% of the out-of-pocket manufacturing cost in Little Rock and this is before adding the freight and duty from Little Rock to England. This is primarily due to the current strength of the dollar.

So a 3 1/2% cost increase doesn't sound all that large, but it is a factor that will further tip the scales in favor of U.K. manufacturing.

If we were to suffer a large increase in electrical rates and if the dollar continues to be strong, I would guess that as much as 20 - 25% of our Little Rock production will be shifted to our U.K. subsidiary.

As far as I am concerned the proposed rate increases on Arkansas customers not only defy logic, but would also have substantial adverse impact on the number of people employed at our Little Rock headquarters.

Thank you for your consideration and time.

Ed Ligon, Jr.
President
Orbit Valve International, Inc.

/bd

American Transportation Corporation

December 6, 1984

Hearing Clerk
c/o Senator Dale Bumpers
2527 Federal Building
Little Rock, AR 72201

Dear Sir:

Enclosed are ten copies of the statement to be given by me to the Committee on Small Business at the hearing on the impact the Grand Gulf nuclear power plant may have on small businesses in Arkansas.

Sincerely,

Joe D. Becton

Joe D. Becton
Executive Vice President
Chief Operating Officer

JDB:gd

Highway 65 South Conway, Arkansas 72032 (501) 327-7761

American Transportation Corporation manufactures buses--school, government and commercial. The bus business is very competitive and orders are awarded on a bid basis. Thus, all areas of cost control are critical and are monitored on a day-to-day basis. The cost of utilities is vital, and we are concerned about how the decision by FERC on the Grand Gulf nuclear plant and the payment for various other new plants within the Middle South Utilities Company will affect our competitive rates.

The major portion of the electrical power consumed at American Transportation Corporation ($269,000 in 1984) is directly related to the production of the bus. All direct production cost-increases worsen our competitive situation. The states in which our competitors' manufacturing plants are located are Indiana, Georgia, and North Carolina. Based on January 1983 figures, their monthly rates compared as follows:

$16,948	Indiana	$16,892	North Carolina
$19,842	Georgia	$16,880	Conway, Arkansas

The above analysis shows that our current electric power cost is competitive with two other bus manufacturers. The percent increase by AP&L would be a direct negative cost impact by the amount of increase of electrical power rates.

Fortunately, the industrial and residential community of Conway is affected less than the rest of Arkansas, due to the foresight of Conway Corporation, our city-owned utility company. Conway Corporation purchased 2% interest in the White Bluff plant and 2% of the Independence plant in earlier years; 90% of Conway's requirements will come from these two facilities in

1985, with only 10% required from AP&L during peak loads. The worst situation that can develop, as I interpret the information provided, would be for AP&L rates to increase 56%, resulting in an increase of 17% through Conway Corporation to American Transportation Corporation. The least harmful situation would be a 6% rate increase by Conway Corporation.

Another concern is for the people who work in Conway but do not live within the area served by Conway Corporation. A 56% increase in their rates will affect them and their standard of living and result in a negative effect an American Transportation.

Recruiting management personnel to Arkansas will become more difficult as the proposed rate increase pushes up the cost of living. An example can be seen in a comparison of my residential electrical bill from Waterloo, Iowa, with rates in the Conway area. The Waterloo bill for October was $106.57. In Conway the same kilowatt hours cost approximately $105.00; outside of Conway, $129.15 or 23% more. With the increase, the electrical bill could be as much as $122.85 in Conway and $201.47 outside the city.

A 17% increase in electrical bills is believed to be enough to stop growth and development. If American Transportation were to build another manufacturing facility today, the two cases in question would encourage us to consider a location outside of Arkansas.

I understand that in 1980 or 1981, AP&L reached an agreement with all stockholders of Middle South Utilities to reduce AP&L responsibility in Grand Gulf to zero. How may an administrative law judge intervene and decide that AP&L's portion will be 36%?

An understanding of this complex issue rests on answers to these questions:

> Is Middle South Utilities a company with divisions?
>
> Who owns Middle South Systems; are they one and the same as Middle South Utilities?
>
> Is AP&L autonomous?

The obvious conclusion I have drawn is that the court ruling by Judge Liebman is, in the short term (10 years), detrimental to Arkansas, its industries and residents.

Koehler Bakery Company
P.O. BOX 15910, NORTH LITTLE ROCK, ARKANSAS 72231
(501) 835-4946

December 2, 1984

Hearing Clerk
c/o Senator Dale Bumpers
2527 Federal Building
Little Rock, Arkansas 72201

Dear Sir:

As requested in a recent letter, I have enclosed ten copies of a statement that I will make at the hearing in Little Rock on the Grand Gulf power plant issue.

We are in the middle of our very busiest season and it would be a burden to devote a full day to this hearing. I would greatly appreciate it if you could schedule me for the early afternoon, so that I may present my statement and return to my business. Thank you.

Sincerely yours,

KOEHLER BAKERY COMPANY

WHKoehler

W. H. Koehler
Chairman

STATEMENT OF W. H. KOEHLER   LITTLE ROCK, ARKANSAS, DECEMBER 7, 1984

Prepared for THE SENATE SMALL BUSINESS COMMITTEE HEARING, concerning: The impact of possible utility rate increases in Arkansas resulting from the asumption of 36 percent of the cost of the GRAND GULF NUCLEAR POWER PLANT by the ARKANSAS POWER AND LIGHT COMPANY, as outlined in the preliminary decision of the FEDERAL ENERGY REGULATORY COMMISSION.

My company, Koehler Bakery Company of North Little Rock, Arkansas, is a family owned business founded in 1919. Since my service in the navy in World War II, my entire working life has been spent in this business. Two of my sons are now co-owners and full time employees.

Our sales volume is approximately $6,500,000 a year, and at least 80 percent of this is for the sale of frozen merchandise. We operate five freezers, the largest of which measures 52' x 84' x 18'. When the present construction project is completed in the spring of 1985, our plant will contain 55,000 square feet.

A contract to co-pack for a large national corporation is a significant part of our production volume. Everything we do is dependent on the cost of the electric power needed for the operation of our freezers and machinery, and to a lesser extent the cost of gas for operating the ovens used for about 75 percent of our production.

The proposed increase in cost of electrical energy would be a severe blow to our business. It would be extremely difficult, if possible, to remain competitive in interstate markets and to retain our present co-packing contract which is based on our ability to efficiently produce products for resale by another in the wholesale market.

What my company faces is a survival issue. The added burden would effectively wipe away a large part of the work that we have done over the past years in trying to build our business. What a sad lot it would be for the people of Arkansas. My heart goes out to those who, even now, who have to struggle to maintain their present positions and comforts. How can these people hope to cope with the added burden?

My understanding is, generally, that Arkansas Power & Light Company, through an agreement with other subsidiaries of the Middle South system, has agreed that they will take no power produced by the Grand Gulf facility. I am not certain whether AP & L had a vote, or even a hearing on whether the Grand Gulf Plant should have been built. The Arkansas Public Service Commission never reviewed the need for the Grand Gulf Plant.

A drastic mistake has been made - a mistake wrought by the Middle South Utility people in obligating the people of Arkansas and denying them rights of hearing, approval or control. Our founders had trouble with a similar problem in the 1770's, The Stamp Act. Arkansans are now being asked to pay a disproportionate share of the cost of a facility from which they will receive little or no benefit.

Since 1946, our company has grown from $120,000 to $6.5 million in sales. Every bit of progress carried a significant price tag. We employ 140 people, and for that reason alone we are of importance to our society and our state. We hope that we will not have to attempt to survive with a fraction of our present number of employees.

Senator BUMPERS. Our next panel is panel 8, Harry Cormier of Cormier Rice Milling, Sherman Cullum from Fisher, AR, and Representatives Bob McGinnis of the Arkansas House of Representatives, from Marianna.

Harry, since your name is on there first, why don't you lead off?

STATEMENT OF HARRY W. CORMIER, JR., PRESIDENT, CORMIER RICE MILLING CO., INC.; SHERMAN CULLUM, FISHER, AR; AND ROBERT McGINNIS, A MEMBER OF THE ARKANSAS STATE HOUSE OF REPRESENTATIVES

Mr. CORMIER. My name is Harry W. Cormier, Jr., and I am president of the Cormier Rice Milling Co. located in DeWitt, AR. Our mill was established in DeWitt in February 1949. DeWitt is the county seat of Arkansas County, which is the No. 1 rice-producing county in the United States. Over 90 percent of our income is derived from farming, and the balance of the income relies on farm-oriented type of labor.

Our mill has seen good years, as well as bad. I recall the very high prices that were paid for rice when large quantities were exported to Iran, Vietnam, and Korea, and I remember some of the low points during the two or three longshoremen's strikes, some of the droughts, and some of the floods that have occurred in that area.

At the present time we are experiencing the tightest financial period our firm has had during the past 20 years. The price of rice is at a 5-year low, and the export of rice for dollars and for Public Law 480 is at a virtual standstill. As you know, 60 percent of the American production is exported; so, with all the mills vying for the remaining 40 percent of the rice business, I assure you things are very tough and very competitive.

Our mill has managed to keep a fairly strong financial position, and we have certainly paid our ample share of State and Federal taxes, on time. What profit we have seen during the past 20 years has helped us to increase our milling capacity, to bring our labor force to approximately 33 people, and to modernize enough to keep us in a competitive position with our much larger and more adequately financed competitors.

We have been able to survive the normal cost-of-living increases, but this proposed 25- or 50-percent increase in our electric rates would be too much of a burden for a small rice mill or for any small business.

Our electric bill since the founding of our company in 1949 through last year has increased 2,513 percent. I certainly realize our business has grown and the cost of everything has increased; however, during the past 5 years, from 1980 through the 1984 year, our bill was approximately $300,000, or a whopping 93 percent over the previous 5 years; and from 1975 through 1979, our bill increased 111 percent over the previous 5 years. A more startling figure would be that for the past 5 years, as I mentioned, our bill was $300,000, as compared to the previous 30 years of $337,000. To my statement I attached our utility light bill for the past 35 years.

Our great country was founded on small private enterprise, and if something isn't done by our Government to heed the needs of small businessmen, there will be no small businesses. We ask that you please apply commonsense rules when dealing with such matters as the Grand Gulf nuclear powerplant. We do not need the power, nor should we pay for it just because of AP&L's affiliation with the Middle South Utilities Co.

Senator, I appreciate the opportunity to vent my frustrations over this very, very serious and complex matter. I assure you I'm very, very proud to be an American and particularly on today, December 7, I'd just like to close by saving, God bless America.

Senator BUMPERS. Harry. thank you very much, and thank you for taking the time to give some really staggering figures in your own business, there. That's an amazing thing to hear those figures cited. It makes you wonder, when your rates have been going up about 25 percent a year for the last 10 years, why we're so excited about this one, doesn't it?

Mr. CORMIER. Yes, sir.

Senator BUMPERS. I guess it's just how well you dramatize something, isn't it?

Mr. CORMIER. Well, it's just very, very difficult for little businesses.

Senator BUMPERS. You've had a 93-percent increase over the last 5 years, and 111 percent increase over the preceding—that's 200 percent over the 10 years, so that's 20 percent a year you've been getting anyway?

Mr. CORMIER. Anyway, that's correct, sir.

Senator BUMPERS. Let me ask you one question, and I'll try to get back to this—I usually don't interrupt before the other panelists have testified, but I don't want to forget it. Were you here when Ron Bailey testified this morning that they were going to build a 5-megawatt generating plant and use hulls and so on?

Mr. CORMIER. Yes, sir.

Senator BUMPERS. Is there any possibility—have you looked into the possibility of something like that?

Mr. CORMIER. Well, Senator, they're talking about $1 million, $1.2 million, something like that——

Senator BUMPERS. And that's out of the range?

Mr. CORMIER [continuing]. And this is completely out of my range. I'm going to let them get all the bugs straightened out and then I'll buy one after I know it works. [Laughter.]

Senator BUMPERS. In fact, I think they kind of waited for Riceland to get the bugs out of theirs.

But that's an excellent statement, Harry, and I really appreciate it.

Mr. CORMIER. Thank you, Senator.

Senator BUMPERS. For those of you who don't know Sherman Cullum, Sherman was one of the people who got wiped out in the tornado that wiped Fisher, AR. out last year; and while I had probably met Sherman and his wife before, I went over to Fisher, like all good politicians are supposed to do when a town is hit by a tornado, and was so impressed by his determination to get back into business. He is an employer, he is the leading citizen, he is a person and a business that everybody in that community looks up to. And frankly, thanks to the Small Business Administration, Sherman got back in the business right away and he's doing fine now. When we started talking about this hearing today, he's one of the first people I thought of.

Sherman, we're anxious to hear from you.

Mr. CULLUM. Thank you, Senator, and I appreciate your asking me to come down. You see my notes here? [Laughter.]

Senator BUMPERS. I know you, though, Sherman; you can handle it.

Mr. CULLUM. Well, I've been in the seed business for about 7 years, and been in the agricultural business all my life, raised on a farm, but been in the agricultural business for the past 20-some years, and I'd like to take this opportunity to especially thank you for letting me come. I wasn't aware until 2 or 3 years ago just how significant a contribution Small Business has made to Arkansas' economy and the Nation. I understand that some 90 percent of the businesses in Arkansas are small businesses. I looked at Cormier's and all these people who have businesses, but they're not large businesses they are small businesses.

I'm a very small business; I have about 13 employees, and I'm in the seed business. I sell rice seed, about 125,000 bushels of rice a year and 60,000 bushels of beans and about 60,000 bushels of wheat until 1984, and that's gone down to about 12,000 or 15,000 this year since the weather has been so bad.

I'm very much concerned with energy costs. I didn't dig up a lot of records, but I remember when I went in the seed business in 1977, my biggest bill in the peak months would be something like $1,200 or $1,400. Now my peak bill is for $4,000, and that's 6 years so they've increased close to three times in the last 6 or 7 years. I paid about $20,000 in AP&L light bills last year, which represents about 5 percent of my fixed costing. When Dick Bell and Ron Bailey were projecting their costs this morning, I was real proud to find out I was about in the same category because I really didn't know what the percentage should be, so I guess I'm doing all right.

But I can't afford a 25- or 50-percent increase in energy costs, electrical energy, and I'm not including my drying facilities, where we use LP gas there.

But the seed business in Arkansas is a very big business. I think it's a lot bigger than most people think. Arkansas has by far the largest seed certification acreage of any State in the Nation. There's just a shade under 300 licensed seed dealers, and it's a $250 million business. I've just projected my increase of $10,000 assuming two things, that everybody's was the same and there's 300 of us, that's a $3 million increase in light bills, electric bills in Arkansas just for the seed industry alone.

As I said, I can't afford that because my profit last year was six-tenths of 1 percent, which means I have no margin to increase—I can't absorb anything else; I'm absorbing everything I can absorb. I'd just like to go on record stating that I'm certainly opposed to this increase. If I make a bad business decision, then I have to pay for it. I feel like the AP&L management and Middle South Utilities people and the shareholders are going to have to pay for this. Don't ask me to. I didn't know how bad the seed business in Arkansas was until the tornado struck, and within 1 week I had eight offers for plants, trying to sell me their plants.

In looking back over the last 15 or 17 months, there are nine seed businesses in Arkansas that have gone out of business. I'm thankful that I'm still here and, as the Senator said, I wouldn't be here without the efforts of—his efforts and the Small Business Administration and a loan about that long; and I told somebody I made 30-year notes out of those 15-year notes, and that's the God's truth. [Laughter.]

But I appreciate you asking me here, and I appreciate having the opportunity to go on the record as being opposed to this gigantic increase. And I am serious about what I said about paying for my mistakes. If I build something and it won't work, I won't ask you to come help me pay for it.

Senator BUMPERS. Sherman, thank you very much, I appreciate you patience in hanging around here all day, waiting to testify, but I personally appreciate it. I know I speak for the members of the committee, who also appreciate it.

Bob.

Mr. McGINNIS. First I would like to thank you, Senator Bumpers, for inviting me to testify before the Committee on Small Business. I'm Bob McGinnis of Marianna, and the following is what I consider to be the potential impact that the Grand Gulf nuclear powerplant may have on small business and farmers in Lee County and surrounding areas.

For the record, I am a farmer and a State legislator. I will begin by giving you the state of the economy in Lee County and surrounding areas.

Lee County has a per capital income of $5,313, which ranks us near the bottom. Out of 75 counties in Arkansas, Lee County, is No. 73. We are the 10th poorest county in the United States; 40 percent of the people in Lee County are on food stamps, and over 20 percent are either drawing SSI or Social Security checks. We have ranked either the highest or second highest in unemployment in the State for the last 8 years. Our unemployment in 1984 has ranged from a low of 13.2 percent to a high of 25 percent.

To give you some insight as to the state of the farm economy in Lee County, 75 percent of our farmers are borrowing money from Farm Home Administration. To describe our economic conditions at this time, I would have to say that we are in a depressed state in this area.

Any increase in utility rates would be bad in this area, but an increase of electrical rates of the magnitude that has been projected here today would be devastating to an already severely depressed economy.

I will take the impact of the rate increase on the farmers first. To try and stay in business during these times of low prices, farmers are trying to increase their yields. One of the ways are increasing our yields is by irrigation. Most of the wells are powered by electricity, so any increase in electrical rates will further add to the decrease in profits, thereby resulting in an overall loss of income. To be honest, only around 10 percent of the wells in my area are serviced by AP&L. while the remaining 90 percent are serviced by Woodruff Electric Cooperative. Therefore, the impact of a rate increase by AP&L of 25 to 50 percent would be much more severe on small businesses and households than on the overall farm economy in this area. However, for those farmers, those 10 percent who do have wells served by AP&L, it would have a dramatic effect.

I have a neighbor who has 12 irrigation wells served by AP&L. The average monthly charge on these 12 wells is $6,000. An increase of $1,500 to $3,000 a month would definitely have an effect on this farmer's income, and I'll add here that he tells me that an increase of that size this year would probably be his biggest problem.

What most people don't realize is that three out of the last 5 years, farmers have lost money.

While admitting that the overall effect on the farm economy in my area would not be great because of the small amount of irrigation wells served by AP&L, the effect on small businesses and households would be devastating. I have checked with a lot of businesses in this area and 90 percent say that they would pass most of the increase in utility rates on to their customers. The effect on the businesses in this area will be in an indirect way. The group that an increase of this magnitude will have the most direct effect on will be the consumer; 20 percent of our consumers in my area are on fixed incomes, and over 40 percent of our consumers are below the poverty level. Therefore, any increase would greatly reduce the buying power of people in this area. This reduction in buying power is what will greatly affect our businesses.

According to Mayor Martin Chaffin, 24 businesses in Marianna closed their doors in 1984. Most of them closed because of the poor economy in this area. Any reduction in the buying power by any means will only make a bad situation worse. We are striving to attract industry to this area in an effort to raise our per capita income and lower our unemployment. An example of this effort is Arkansas Delta Development, Inc. For the last 3 to 5 years individual men and women in Lee, Monroe, and Phillips Counties have joined together in an effort to attract industry to this area. With no State or Federal funds, these people have contributed their local dollars and directed their energy and ideas toward creating new manufacturing jobs in our economically depressed area of the State. It took us over 3 years to determine if we could compete; and indeed, we have learned that not only can we compete, but we can win. Monsanto's decision last year to purchase a 2,000-acre site on the Mississippi River near Helena answered that question. One of the primary reasons why Monsanto chose that location was the availability, reliability, and cost-and underline cost—of electrical energy for future development. And in one fell swoop, with the threat of Grand Gulf and the Rate Equalization ruling, we can move from the top of the favored list to near the bottom.

The key to raising the standard of living for people in this aprt of the State is new industry. A dramatic increase in electrical energy would instantly preclude us from serious consideration by people presently evaluating this part of eastern Arkansas.

The opportunities in this State are tremendous, the timing is perfect, and the greatest tragedy perpetrated on the men and women of Arkansas is to allow this transgression to occur.

Senator, I'd like to make an observation. It was said earlier in the day that maybe we're overdramatizing this whole thing; but the thought just hit me that for the people in my part of the state, any increase is a dramatic increase. I don't care if it's 10 percent, it's still a dramatic increase because most of them are over there on fixed incomes. Sometimes we get lost, I guess, in the fact that—everyone here today, I've noticed, is above the poverty level by a whole lot;-you can tell by the way we're all dressed—but to most of the people, frankly, half the people in this State are on a $12,000 income or less. And a $50 electrical bill, and you go up 10 percent, $5, that's a dramatic increase to most of these people.

It hit home to me the other day when this lady came up to me and said: "Bob, you know, if I knew that they needed it, I wouldn't mind 5-, or 10-, or 20-percent increase; but it's been admitted by everyone that this increase isn't needed." And she said it's just like stealing from them, and that's exactly right.

The other thing I'd like to publicly say at this time is—I think Dick Bell or someone hit upon the idea—we do need moneys for a good Public Utility Commission, and I'd like to go on record as a legislator as supporting any reasonable increase that will help us attract and keep competent people in our Public Utility Commission.

Mr. CULLUM. One question I'd like to ask—I might be out of order; if it is, just say so—but how come utilities or anybody is guaranteed a return on investments? What business enterprise do you know that's guaranteed anything? Now, I understand that we've got to have utilities—and I'd certainly be the last one to want to turn the lights out. I don't want to do that. But if 5, or 10, or 20 percent, or whatever the rate is—return on investment guaranteed by law—who says that it's necessary for public utilities to get a return on fixed investments? Some years, I don't even get one return on investment. Bob McGinnis don't get them every year, I'll guarantee you, and I'm getting very little.

Senator BUMPERS. That's the reason, as Harry said, that there's obviously a grave miscalculation, a big mistake made in anticipating what our demands would be. You know what happens to you when you make those kind of mistakes, don't you?

Mr. CULLUM. Darned right; I go back to the bank two or three times and try to wiggle through it.

Mr. CORMIER. Senator, one quick question. The Washington thing—these fellows took bankruptcy up there. Why can't these people down there take bankruptcy? This thing is going to be devastating to us. In DeWitt, 15 or 20 businesses closed around our little square. I mean, it's just got to stop somewhere.

Senator BUMPERS. I was shocked by the number of businesses closed. You say the mayor of Marianna says——

Mr. MCGINNIS. Twenty-four went out of business last year. Exactly right.

You know, there was a statement made today that we would probably leave the Grand Gulf in, what, 1994, I believe it was. This takes you back to the sixties and early seventies when they were projecting that we would need the energy that we have today; we've got anywhere from 30- to 50-percent excess energy today, so that's all just conjecture, really.

Senator BUMPERS. There is one thing to be said, that Middle South, for example, in exchange for being given a monopoly, which they are, they are also limited on the amount of income they can make. The reason we have rate cases is to keep them from making an exorbitant amount because they have this State-granted monopoly. But I still don't think that mitigates or militates against the fact that they are a publicly held utility. People own their stock. I bought stocks a lot of times in my life and lost money on them, and I never did ask the Arkansas ratepayers to pick up the tab for my losses.

Mr. McGinnis. That's correct.

Senator Bumpers. I'm not trying to politicize the issue, just talking the way I feel about it. As far as I'm concerned, Sherman, you can't overly dramatize this problem. It is a major problem for this State and it is unique to this State. We're the ones who are going to suffer from it if we lose this lawsuit.

Mr. Cullum. Look at the problem with Union Carbide in the last 7 days with the terrible disaster in India. The stock plummeted 10 or 12 points, and they're just on the verge of bankruptcy.

Senator Bumpers. I hope they don't come down and ask our people to pay for that, don't you?

Mr. Cullum. I sure do. And it's a sad thing, it's a terrible thing.

Senator Bumpers. Well, you have all made excellent statements, and I appreciate it. I don't mind saying publicly, from the day I was elected Governor I always tried to help Lee County and Phillips County because they have very unique problems there, and it's been kind of tough to get done. We've all taken great pride in the fact that Monsanto has taken an option on that land down there and hopefully is going to do something with it. Hopefully, we're going to get Helena Harbor one of these days if we ever get the deficit under control. I don't know how we're going to get anything until we get the deficit down.

Gentlemen, you've all made excellent witnesses and I appreciate your hanging around here all day to give your testimony. But I appreciate it very much.

Mr. McGinnis. Thank you.

Mr. Cullum. Thank you.

Mr. Cormier. Thank you.

[The prepared statements of Mr. Cormier and Mr. McGinnis follow:]

Cormier
RICE MILLING CO., INC.

Phone 501-946-3561 — 501 W Third — P. O Drawer 152 — DeWitt, Arkansas 72042

December 4, 1984

United States Senate
Committee on Small Business
Washington, D.C. 20510

Dear Mr. Chairman:

My name is Harry W. Cormier, Jr. and I am president of the Cormier Rice Milling Co., Inc., located in DeWitt, Arkansas. Our mill was established in DeWitt in February 1949. DeWitt is the county seat of Arkansas County which is the number one rice producing county in the United States. Over 90% of our county income is derived from farming and the balance of the income relies on farm oriented labor for their work force.

Our mill has seen good times as well as bad. I recall the very high prices paid for rice during the years we exported large quantities to Iran, Vietnam and Korea, also the low points during the Long Shoreman's strike, droughts and floods. At the present time we are experiencing the tightest financial period our firm has had during the past 20 years. The price of rice is at a 5 year low and the export of rice for dollars and PL 480 is at a virtual standstill. Sixty percent of the American production is exported, so with all of the mills vying for the remaining forty percent of the rice business, I assure you things are very tough and competitive. Our mill has managed to keep a fairly strong financial position and we have certainly paid our ample share of state and federal taxes on time. What profit we have seen during the past twenty years has helped us to increase our milling capacity, bring our labor force to thirty three people and to modernize enough to keep us in a competitive position with our much larger and more adequately financed competitors.

We have been able to survive the normal cost of living increases but the proposed 25% or 50% increase in our electrical rates would be too much of a burden for our small mill or any small business.

Our electrical bill since the founding of our company in 1949 to last year has increased 2513%. I certainly realize our business has grown and the cost of everything has increased, however, during the past five years from 1980-'84 our bill was approximately $300,000 or a whopping 93% over the previous 5 years. From 1975-'79 our bill increased 111% over the previous 5 years. A more startling figure would be for the past 5 years our bill was $300,000 as compared to the previous 30 years $337,000. To my statement I have attached the light bills we received for the past 35 years.

Our great country was founded on small private enterprises. If something isn't done by our Government to heed the needs of small businesses, there will be no small business. Please apply common sense rules when dealing with such matters as the Grand Gulf Nuclear Power Plant. We do not need the power, nor should we pay for it just because our local AP&L is owned by the large Mid South Utilities Company.

Respectfully submitted,

HW Cormier

Harry W. Cormier, Jr.

[illegible]

HWC:bmd
Attachment

Cormier
RICE MILLING CO., INC.

Phone 501-946-3561 — 501 W. Third — P. O. Drawer 152 — DeWitt, Arkansas 72042

POWER COST

Year	
1950	$ 2,940.01 + 2,513.07% from 1950 to 1984
1951	$ 3,035.36
1952	$ 5,942.72
1953	$ 4,020.97
1954	$ 5,608.00
	$ 21,547.06
1955	$ 6,473.04
1956	$ 6,175.80
1957	$ 4,426.36
1958	$ 5,829.14
1959	$ 4,240.84
	$ 27,145.18 +26% over 1950-1954
1960	$ 6,966.36
1961	$ 7,508.50
1962	$ 8,134.98
1963	$ 10,305.49
1964	$ 12,477.99
	$ 45,393.32 +67.2% over 1955 - 1959
1965	$ 12,743.20
1966	$ 13,047.96
1967	$ 13,273.50
1968	$ 13,572.43
1969	$ 11,335.42
	$ 63,972.51 + 40.9% over 1960-1964

Year	
1970	$ 14,194.64
1971	$ 11,856.70
1972	$ 12,137.06
1973	$ 15,900.16
1974	$ 19,983.48
	$ 74,072.04 +15.7% over 1965-1969
1975	$ 24,504.21
1976	$ 26,738.40
1977	$ 27,506.00
1978	$ 35,685.16
1979	$ 41,357.27
	$155,791.04 +110.3% over 1970-1974
1980	$ 47,587.47
1981	$ 56,031.66
1982	$ 54,968.75
1983	$ 64,057.74
1984	$ 76,824.38
	$299,470.00 +92.2% over 1975-1979

Harry W. Cormier, Jr.
President

"Have A Rice Day"

First, I would like to thank Senator Bumpers for inviting me to testify before the Committee on Small Business.

I am Bob McGinnis of Marianna, Arkansas, and the following is what I consider to be the potential impact the Grand Gulf Nuclear Power Plant may have on small businesses and farmers in Lee County and surrounding areas.

For the record, I am a farmer and a State Legislator. There are 22,000 people in my District; 15,000 in Lee County and 7,000 in south St. Francis County. I will begin by giving you the state of the economy in Lee County and surrounding areas.

Lee County has a per capita income of $5,313.00 which ranks us near the bottom. Out of 75 counties in Arkansas, Lee County is No. 73. The average per capita income for Arkansas is $8424. We rank as the tenth (10th) poorest county in the United States. Forty percent (40%) of the people in Lee County are on food stamps and over 20 percent (20%) are either drawing SSI or Social Security checks. We have ranked either the highest or second highest in unemployment in the state for the last eight years. Our unemployment in 1984 has ranged from a low of 13.2% to a high of 25%.

To give you some insight as to the state of the farm economy in Lee County, seventy-five percent (75%) of our farmers areborrowing money from Farmers Home Administration. To describe our economic condition at this time, I would have to say that we are in a depressed state in this area.

Any increase in utility rates would be bad in this area; but an increase of electrical rates of the magnitude that has been projected, (25 to 50 percent), would be devastating to an already severely depressed economy.

I will take up the impact of increased rates on the farmers first. Price and yield are the two factors which determine the gross income that farmers get. We have no control over the prices we receive for our farm products. To try and stay in business during these times of low prices, farmers are trying to increase their yields. One of the ways we are increasing our yields is by irrigation. Most of the wells are powered by electricity so any increase in electrical rates will further add to the decrease in profits thereby resulting in an overall loss of income. To be honest, only around ten percent (10%) of the wells in my area are serviced by A P & L, while the remaining 90% are served by Woodruff Electric Cooperative. Therefore, the impact of a rate increase by Arkansas Power and Light of 25 to 50 percent would be much more severe on small businesses and households than on the overall farm economy in this area. However, for those farmers (10%) who do have wells served by A P & L, it will have a dramatic effect. I have just installed a towable center pivot irrigation system that has three wells. These wells are served by A P & L. A 25 to 50 percent increase in electrical rates on these three wells would greatly reduce the profit I would realize on the increased yield of the 180 acres that are irrigated by the center pivot.

I have a neighbor who has twelve (12) irrigation wells served by A P & L. The average monthly charge on those 12 wells is six thousand dollars ($6,000). An increase of $1500 to $3,000 a month for three to four months billing would definitely have an effect on this farmer's income. What most people don't realize is that three out of the last five years - farmers have lost money.

While admitting that the overall effect on the farm economy would not be great because of the small number of irrigation wells served by A P & L, the effect on small business and households would be devastating. I have checked with a lot of businesses in this area and 90% of them will pass most of the increase in utility rates on to their customers. The effect on the businesses in this area will be in an indirect way. The group that an increase of this magnitude will have the most direct effect on will be the consumer.

Twenty percent (20%) of our consumers are on a fixed income and over 40 percent of our consumers are below the poverty level, therefore an increase will greatly reduce the buying power of the people in this area. This reduction in buying power is what will greatly affect our businesses.

According to Mayor Martin Chaffin, twenty-four (24) businesses in Marianna closed their doors in 1984. Most of them closed because of the poor economy in this area. Any reduction in the buying power (by any means) will only make a bad situation worse. We are striving to attract industry to this area in an effort to raise our per capita income and lower our unemployment. An example of this effort is Arkansas Delta Development, Inc. For the last three to four years individual men and women in Lee, Monroe, and Phillips Counties have joined together in an effort to attract industry to this area. With no state or federal funds, these people have contributed their local dollars and directed their energy and ideas toward creating new manufacturing jobs in our economically depressed area of the state. It took us over three (3) years to determine if we could compete; and indeed we learned not only can we compete - but we can win! Monsanto's decision last year to purchase a two thousand (2,000) acre site on the Mississippi River near Helena answered that question. One of the primary reasons Monsanto chose that location was the availability, reliability, and cost of electrical energy for future development. And in one full swoop, with the threat of the Grand Gulf and Rate Equalization ruling, we can move from near the top of the favored list to near the bottom!!

The key to raising the standard of living of people in this part of the state is new industry. A dramatic increase in electrical energy would instantly preclude us from serious consideration by people presently evaluating this part of eastern Arkansas.

The opportunities are tremendous, the timing is perfect, and the greatest tragedy perpetrated on the men and women of Arkansas is to allow this transgression to occur.

Respectfully Submitted By

Bob McGinnis
Route 3, Box 197
Marianna, Arkansas 72360

Senator **Bumpers**. We will now hear from panel No. 9, which includes Terry Shipp of Deltic Farm & Timber; Charles Shields, of Shields Lumber; and Senator James C. Scott of the Arkansas General Assembly.

Welcome, genetlemen. Terry, we'll start with you.

STATEMENT OF C. TERRY SHIPP, CONTROLLER, DELTIC FARM & TIMBER CO., INC.; CHARLES SHIELDS, SHIELDS LUMBER; AND JAMES C. SCOTT, SENATOR, ARKANSAS GENERAL ASSEMBLY

Mr. **Shipp**. I'm Terry Shipp, and I am controller of Deltic Farm & Timber. We have headquarters in El Dorado and farming operations in Desha County but my statement this afternoon will deal with our two sawmills.

We have a sawmill in Waldo, AR, and one in Ola, AR. These two mills combined employ 273 people. Our lumber is sold throughout 24 Midwestern and Southern States, with a primary market in Texas, Arkansas, Missouri, and Oklahoma.

Everyone knows that the building industry has been on a roller coaster for the last several years. In 1978 there were over 2 million housing starts; that plummeted to slightly over 1 million in 1982. Current estimates say that 1984 housing starts will be between 1.5 million and 1.6 million, with a long-range projection of annual housing starts something in the order of 1.3 million into the 1990's.

This roller coaster has hurt the building industry and it has, of course, hurt Deltic in particular because we closed our mills in 1981 and 1982. In 1978 we had an average lumber sales price of $210 per thousand board feet; in 1982, that dropped to $198, and in 1984, we think it will be something in the order of $184 per thousand board feet.

This price decrease is a combination of many factors. Of course, you can see that the housing starts themselves are decreasing all the time, but we are also facing increasing competition from Canada. Ten years ago, Canadian lumber provided 10 percent of the U.S. market; today that's in the order of 35 percent of the market. It's a sidelight that doesn't affect Arkansas, but more than 60 percent of the lumber sold in Florida and Georgia came from Canada, so the Canadian marketers are making good inroads into the U.S. market.

The combined factors indicate we'll have increased supply combined with decreased demand. Obviously that says we'll have no encouragement for an increase in prices over the long haul.

The cost of lumber produced has increased 14 percent for Deltic between 1978 and 1984, but the electrical cost has increased 163 percent. Our electrical cost, even though it's not a significant percentage of the total, has increased over ten times the average cost.

We accepted AP&L's predictions that Arkansas will need more power, and this increase in cost will pay for the nuclear one plant and the coal-fired plants that AP&L said we needed. We don't like these higher costs, but at least we have the additional power and we have hope for lower rates in the future. If the "worst case" scenario comes to be in the AP&L and *Grand Gulf* case, it would raise Deltic's cost $4 per thousand board feet on the lumber we sell, and cost us from $400,000 to $500,000. This cost will be absorbed by

Deltic, because the lumber market does not condone nor allow a pass-on mentality. It's very competitive. Deltic's management and employees are unalterably opposed to any settlement that will raise our rates to pay for unneeded powerplants or subsidize power users of other systems. In addition, we are opposed to the System Average cost concept. We are not prepared to say that an unfavorable ruling will close our mills, but it will put us at a disadvantage in an unforgiving marketplace.

Please do not let insult be added to injury by allowing the FERC to implement such unlawful, illogical and unjust decisions.

Thank you.

Senator BUMPERS. Thank you very much.

Mr. Shields.

Mr. SHIELDS. Thank you, Senator.

I'm Charles Shields, and I'm from Glenwood. Glenwood is a small, rural town, just about 30 miles southwest of Hot Springs——

Senator BUMPERS. Charles, before you go any further, I lost my high school ring in the Caddo River. [Laughter]

I hadn't had it a year. I was only about 18 years old when I lost it.

Mr. SHIELDS. Well, if I run across it, I'll sure look to you.

My wife and I operate a very small sawmill and we employ 14 people. Most of the small business that I've heard today are what I consider the upper limits of small business; a few of them are as small as we are. We call ourselves a mom-and-pop-type operation. We manufacture three different products. We manufacture grade D and better lumber for Potlatch, down in Warren; we sell house logs to Arkansas Log Homes at Mena, and we also sell small timbers to Hatville Lumber Co. in Hatville, all of these in Arkansas.

I want to give just a little bit of information on exactly what some of my costs are. We produce about 16,000 board feet of lumber in a day's time, and I want to give you a little bit of breakdown on the manufacturing costs here. Some 85 percent of my cost is the price of the timber that I bring in. My labor costs will run me 11 percent. AP&L and my power costs, which runs $79 a day, is 2 percent. And my parts and miscellaneous cost also runs 1 percent. My insurance cost is 1.

That is a total of $3,972 a day that it costs me to operate a mom-and-pop-type business. When I sell all my products, I bring in $4,200. That leaves a margin for a profit of $228. Now, if we make a mislick, that is going to be a lot less than the $228; that is in the amount of 5 percent.

Now, if power cost in Glenwood goes up 25 to 50 percent, it's really going to put us in a bind. This totals about—I've been in the sawmill business there since 1972, and at that time our power costs was averaging $273 a month; now it's 1,580 a month. And if that goes up 50 percent, there's another——

Senator BUMPERS. 750 bucks.

Mr. SHIELDS. Yeah. Our margin for profit is so small to start with, I just don't really see how we could continue to go with it. You can't pass it on in the lumber business you've got to absorb that type of cost yourself.

Senator BUMPERS. Incidentally, how much are two-by's bringing right now?

Mr. **SHIELDS**. About $186.

Senator **BUMPERS**. Do you buy all your timber from independent contractors?

Mr. **SHIELDS**. Well, I buy about 60 percent of mine from the U.S. Forest Service and the rest of it from independent contractors.

Senator **BUMPERS**. Does the so-called timber bailout bill, that passed just before Congress adjourned, Terry, help either you or Charles?

Mr. **SHIPP**. It won't help us. It will increase competition.

Senator **BUMPERS**. You own all of yours, of course?

Mr. **SHIPP**. Well, we own most of ours; but some of ours at the Ola mill, came from the Forest Service around Russellville. We do have some contracts with them——

Senator **BUMPERS**. Tery, I'll tell you, I voted for that and I was happy to help some timber people in doing that. The only misgivings I had about that is that a lot of people who don't buy Forest Service timber and had built-in contracts didn't get the advantage of having a magnanimous Government bail them out.

Mr. **SHIPP**. That's exactly right.

Senator **BUMPERS**. And I must say that I was not unmindful of that. I wouldn't want you or anybody to think that I didn't realize that at the time that I was voting on it, but it was a chance to help some people—a lot of people—who were just hanging by their thumbs.

Did it help you any, Charles? Did you have any——

Mr. **SHIELDS**. Well, I had a few—well, I had three different contracts, but I'm so small I can't buy them far enough out in the future for this to really have helped me. All of mine has been purchased within, say, 6 months to 1 year. I didn't have any that was 5 years or——

Senator **BUMPERS**. You didn't have any of those big $300 and $400 a thousand contracts?

Mr. **SHIELDS**. Thank the Lord, I didn't.

Senator **BUMPERS**. I thank the Lord you didn't, too.

I tell you, Charles, I came out of a five-employee furniture, hardware, and appliance store. Even though our definition of small business is people who employ 500 employees or less, you really are rather the personification of what I think of as small business. I thought of myself as a small businessman when I was in business, and I know it's very difficult, and especially difficult for you. I can see what your profit margin is and what kind of problems you're having.

What I was going to ask you a while ago, Charles: I remember when the Norman Lumber Co. shut down about 3 or 4 years ago.

Mr. **SHIELDS**. Yes, sir.

Senator **BUMPERS**. Didn't they give as the reason at that time for shutting down, their enery costs?

Mr. **SHIELDS**. One of their main reason was a $12,000 a month bill, electric bill.

Senator **BUMPERS**. Yes. They said it had just gotten to the point where they couldn't make a profit.

Mr. **SHIELDS**. Yes, sir.

Senator **BUMPERS**. OK.

Mr. SHIELDS. In my business, 3 or 4 years ago, we had to change our hours to operate when they came up with this peak-demand power time. We had to start to work at 2 o'clock in the morning and get off work before 11 o'clock in the afternoon or my light bill, instead of being $1,500, would have been over $4,000 a month. And that's very hard to—when your production's so bad, you go much lower than you're doing this kind of thing, you know, you lose a third——

Senator BUMPERS. You said you went into this in 1977. What were you doing before that?

Mr. SHIELDS. I worked with the U.S. Forest Service for 11½ years.

Senator BUMPERS. Were you a forester?

Mr. SHIELDS. Yes, sir.

Senator BUMPERS. Senator Scott.

Mr. SCOTT. Senator, I'm pleased to be with you today. My name is James C. Scott. I'm a resident of Warren, AR; I currently serve as a State Senator from Arkansas' 34th Senatorial District, which is composed of all or a part of the counties of Ashley, Bradley, Cleveland, Dallas, and Lincoln, in the southeastern part of the State.

It is predominantly a rural district whose economy is largely dependent upon agricultural and forestry activity, particularly the latter. Three of its five counties are more than 80-percent forested, ranging from a high of 88 percent in Bradley County to a low of 37 percent in Lincoln County. According to the Arkansas Forestry Commission, it contains 36 primary and secondary forest industry plants, 6 of which are currently out of operation, primarily because of adverse economic conditions. And I might say, senator, that there are about 1,200 plants Statewide. More than 7,000 of the residents in my district earn their living through direct employment in forest industry, or about 17 percent of the total work force. The forest industry has about 51,000 people directly employed, but we could attribute to the industry a total of about 165,000 jobs, or about 10 percent of the population above age 18 in the State of Arkansas, to give you an indea of the magnitude of this industry.

As the only registered forester in the Arkansas General Assembly, I feels that I have some particular understanding of current problems and concerns affecting the forestry community; and for that reason, and because of the importance of forestry to my district, I would like to focus on that sector of the economy in my comments today.

As you know, the last several years have not been good ones for the forest products industry. High interest rates and changing demographic patterns have had a sharply adverse effect on housing starts. Industrial construction and general economic vigor have also been slowed by a couple of deep recessions in recent years. And an already grim situation has been aggravated by the glut of Canadian lumber imports pouring into every area of the United States.

Estimates have been made that from 30 to 33 percent of the lumber currently sold in the United States is of Canadian origin. Deep and painful inroads have even been made into the heartland of the southern pine industry. Figures developed by the Canadian industry itself indicate that Canadian imports made up 63 percent of lumber sold in Florida, 61 percent in Georgia, 47 in North Carolina, and 42 in South Carolina. The 1982 figure for Arkansas was slightly more than 7 percent, but that is largely irrelevant in light of the fact that approximately 85 percent of the State's production is exported to other States.

I'd like to mention, Senator, that this Canadian stumpage [Mbf], is about $15 Canadian or $18 American, compared to that $300 or $400 that you spoke of earlier, and there are some cries in Canada to lower that, to make it even lower, which would greatly impact Arkansas.

The adverse impact of Canadian imports on southern lumber and stumpage prices would probably be less objectionable were it not for lingering suspicions that the Canadian Government in effect subsidizes the Canadian wood products industry with low-cost timber from provincial forests. I understand all the timber belongs to the crown in Canada.

All lof that is simply by way of background, to underscore the fact that these are hard times for Arkansas' forestry community. New, more economically efficient means of production have been sought out and tried, and manpower requirements have been carefully evaluated, but the simple fact is that the industry is faced with a difficult price-cost-demand equation, and anything that adversely affects any element of that equation could cause real economic problems. You heard Mr. Shields talking about working at night. Many of my operators in the district work all night instead of day to try to avoid this peak-demand cost in the daytime. If you can imagine how it is working in a sawmill at night, what the risk would be, for the equipment and the men?

Obviously, in saying that, I particularly have in mind the subject of this hearing, the potential impact of the Grand Gulf nuclear powerplant and related issues on small business and farmers in Arkansas. It is a subject which I am especially sensitive to in light of the fact that the State's second and ninth largest electrical energy users—both forest industries—are located in my district.

The economic implications of this important subject, for all of the people in my district, could be enormous. Let's look at the hard figures.

AP&L itself says that if Arkansas were forced to absorb 36 percent of Grand Gulf's total cost, as FERC has proposed, it would produce a normal, overall first-year rate increase in our State of 27 percent, down to 24 percent the second year, and so on through a fairly rapid depreciation schedule. However, AP&L proposes to phase in the increases over a period of years, so that the effective 1-year increase would not amount to more than a relatively manageable 5 percent per annum. Nonetheless, the real increase would be great.

Now, our main concern is the system average costing proposal, whereby all Middle South generating facility costs would be pooled—regardless of the State in which they might be located—for ratemaking purposes. In a recent speech before the Arkansas State Chamber of Commerce, AP&L President, Jerry Mauldin said that adoption of this proposal would produce a potential 50 percent annual rate increase for AP&L ratepayers, with no depreciation factor to reduce the impact.

Senator, that would simply be the death knell for much of Arkansas' small wood products operations, which have already been struggling with steadily rising electrical energy costs over the past several years. A number of them have already attempted to shift to night schedules to avoid high-cost peak-demand periods, and other economies have been sought. But the burden has been heavy.

A small sawmill operator in Dallas County, Dwight Lamb of C&S Lumber in Carthage, AR, expressed the situation in words that reach to the heart of the matter. I'm quoting from Dwight now:

> We've struggled tooth and nail to stay in business the last 10 years. During that time, we absorbed several electrical rate increases to pay for new generating facilities in Arkansas, and now we're being asked to pay for Mississippi's. This little company has had 1 good year in the last 10 to recover, and those aren't good odds. If we had been faced over the last 10 years with electrical cost increases of the size being talked about now, it would have created a life-or-death situation. If such an increase were to occur in the near future under comparable economic circumstances, it would probably mean the demise of this company.

That operator went on to say that one of his competitors had already dropped by the wayside, and one of them, located about 35 miles away, was being auctioned off yesterday. That was at Sheridan.

When that happens, it involves not just the loss of forest products production; more importantly, it also involves jobs, payrolls, economic activity, tax bases for our schools and other public institutions. And, as we lose electricity using industries, the rate base is inevitably shifted to remaining customers, with resultant additional increases in their electrical bills.

And I would remind you, Senator, that 14 percent of our patrons in the State are above 65 years of age and, I believe it was testified earlier, we are second to Florida in that account. In Bradley County, the second-largest industry we have is the Social Security Administration which brings in $1.1 million a month, and those people could ill afford what we're talking here today.

The people of my district—and, indeed, all of Arkansas—must have a favorable ruling in the system average costing case, and they are hopeful of a favorable decision concerning the Grand Gulf cost-sharing issue.

I would submit that the potential consequences are so great that should adverse rulings be issued, nothing less than drastic action would become necessary.

Obviously, congressional relief could be ultimately sought, and I respectfully urge that members of this committee prepare themselves for such an eventuality.

One thing is certain. Because of the importance of this industry, Senator—49 percent of this State is in forest land, 16 million acres, and another 49 percent is in agriculture—comparing the employment, we are pretty close. The gross dollars go to agriculture, about $2.8 billion against our numbers, and I'm not sure exactly what ours are. But because of the importance of this industry to our State, we cannot allow our people to become engulfed in economic chaos and will take whatever steps are necessary to avoid such a circumstance. If State takeover and operation of Arkansas' primary electrical utility were to become necessary, then we would do what had to be done.

The issue is critical. Your interest in the matter is timely in the extreme, and it is very much appreciated.

Thank you, Senator.

Senator **Bumpers**. Jim, thank you very much. That's excellent testimony. All the witnesses continue to present statistics that are extremely cogent and, frankly many of them are new to me. Because of my position on the Energy Committee I have to keep up with the timber industry because we have jurisdiction over the Forest Service. But even so, you gentlemen have pointed out some things here that were certainly new to me.

Jim, on the Canadian imports, incidentally, the last figure I saw, which was about 2 months ago, I think about 30 percent of all timber in the country right now is coming from Canada, and 40 percent of all softwoods sold in this country are coming from Canada.

Mr. **Scott**. We're an exporting State. We ship 85 percent of our forest products out, 98 percent of the poultry, 65 percent of the rice and soybeans, 100 percent of the wheat—we don't even have a wheat mill in Arkansas.

Senator **Bumpers**. Well, every person that's testified here today that is affiliated with any industry that does export is still subject to intense domestic competition, if not international competition. The margins are so slim that a utility rate increase like this just makes them not competitive, like Bruce Neimeth at the Monark Boat Co. who says that they lost four contracts this year and would have lost more if they had had this rate increase.

I want to thank you for hanging around here all day, for coming in the first place, and for taking the time to wait until we could get to you. And I appreciate it very much personally; all of your testimony is excellent. We will share this with the committee when we get back to Washington. Thank you again.

Mr. **Shipp**. Thank you.

Mr. **Shields**. Thank you.

Mr. **Scott**. Thank you.

[The prepared statements of Mr. Shipp, Mr. Shields, and Mr. Scott follow:]

DELTIC FARM & TIMBER CO., INC.

200 PEACH STREET
EL DORADO, ARKANSAS 71730

December 3, 1984

Senator Dale Bumpers
United States Senate
Committee on Small Business
2527 Federal Building
Little Rock, AR 72201

Dear Senator Bumpers:

Enclosed is a statement of Deltic's position regarding the potential impact of the proposed Grand Gulf nuclear power plant settlement. My testimony will be highlights from the written statement.

We appreciate the opportunity to present our views on this critical issue.

Yours truly,

C. Terry Shipp
Controller

CTS:cw

Testimony before the Senate Committee on Small Business regarding the Impact of Construction and Cost Recovery of the Grand Gulf, Mississippi Nuclear Power Plant

Little Rock, Arkansas
December 7, 1984

Deltic Farm & Timber Co., Inc. owns two sawmills, one in South Central Arkansas at Waldo, the other at Ola, approximately 80 miles northwest of Little Rock. Including mill workers and field personnel the mills support 273 employees. Our primary product, dimension lumber manufactured from southern yellow pine, is sold in 24 midwestern and southern states with approximately 80 percent being delivered within the central states of Texas, Arkansas, Missouri, and Oklahoma.

Sales by Destination during 1983

State	MBF	% of Total Sales
Texas	22,658	35.0
Arkansas	15,186	23.5
Missouri	6,970	10.8
Oklahoma	6,339	9.8
Illinois	2,375	3.7
		82.8

Deltic's sawmill operations have been on the same roller coaster as other businesses that are tied to the housing market. Both mills enjoyed success during the 1977-1978 building binge but were shut down for various periods during the 1980-1982 recession. Following the recession, pent-up demand and a lack of production due to mills having been shut down combined to drive up lumber prices approximately 50%. As mills were reopened and production returned to normal levels the balance between supply and demand was restored and prices fell from the artificial highs. After peaking in late 1983 lumber prices have once again started a precipitious decline in reaction to higher interest rates which retard housing starts. Please note appendix 1 attached.

A secondary element in the supply/demand ratio determining lumber prices is the increase in lumber exported by Canada into the United States lumber markets. Ten years ago Canada supplied about 10% of the lumber used. Today their share has increased to approximately 35% of total supply. According to the British Columbian Council of Forest Products, more than 60% of all lumber sold in Florida and Georgia during 1982 came from Canada. This is an increase from the data shown on appendix 2. The following table illustrates the Canadian inroad into Deltic's primary marketing area:

	Canadian Market Share	
	1980	1982
Texas	20.5%	25.8%
Arkansas	13.5	7.2
Missouri	32.7	40.0
Oklahoma	12.5	13.8

Another factor affecting competition is the recent bail-out of federal timber purchasers, primarily large northwestern lumber producers. As a result of the bail-out, these companies will be able to lower their costs and ship lumber further into the midwestern states.

Long term forecasts of housing starts project that we will never return to the 1978 level. Projections indicate that 1,300,000 starts per year would be a reasonable assumption.

Housing Starts - 000's	
1984	1,515 est.
1983	1,679 est.
1982	1,070
1981	1,080
1980	1,290
1979	1,750
1978	2,020
1977	1,990
1976	1,450
1975	1,170

This background information is included to show the complex factors which influence the free market in which Deltic competes. The long term factors determining the price at which Deltic will sell it's future production do not encourage hope of a significant increase. Lower demand will combine with increased supply to force Deltic to remain competitive.

Inflation has obviously increased all cost categories but let's restrict our attention to electrical power costs. The following table shows that the power cost per unit produced by Deltic's combined sawmill operations has risen over 165% since 1975:

Electrical Cost per MBF

	Production	Cost	Cost/MBF
1984	104,221	$ 867,655	$ 8.325
1983	72,506	621,441	8.571
1982	22,419 *	318,558	14.209
1981	26,711 *	325,958	12.203
1980	33,306 *	270,099	8.110
1979	110,168	395,014	3.586
1978	116,117	367,977	3.169
1977	107,758	359,642	3.337
1976	89,503	280,213	3.131
1975	63,115	198,058	3.138

* Period of intermittent operations and shutdowns

Prior to 1973, Arkansas' primary electrical power was generated by natural gas-fired steam generators. Before the 1973 energy crisis, Arkansas Power and Light management embarked on a program to secure other sources of power. Funds to construct new plants were requested, approved, and financed by rate increases to be paid by power users. A significant portion of Deltic's power cost increase can be attributed to the financing of new plants.

Although we loathe the cost increases, at least we have access to additional power and hope for future decreases in per KWH costs. If the "worst case" prevails in the Grand Gulf settlement and related cases, Deltic's cost of lumber produced will increase $4.16 per MBF. This increased cost of approximately $435,000 cannot be "passed on" in the market place and will yield Deltic nothing in return.

Deltic is not prepared to state that an unfavorable Grand Gulf settlement will insure the closure of our mills, but one mill would be forced into a loss operation and the other mill would suffer a severe economic blow.

As this and other august bodies discuss the Grand Gulf case and related issues, we ask them to address the following questions:

(A) By what right does a non-elected bureaucrat acquire the authority to require the citizens of Arkansas to pay for generating capacity not to be used in Arkansas?

(B) By what law can the people of Arkansas be required to pay for Grand Gulf or similiar projects?

(C) Where was this new sense of equality and benevolence when the people of Arkansas were required to pay higher rates to provide their own electrical power?

(D) If cost equalization and benevolence is to be FERC policy, then we suggest that our rates be combined with those of the TVA system to arrive at average rates.

Deltic's management and employees are unalterably opposed to any settlement of the Grand Gulf case which has the effect of raising our rates to pay for the construction of unneeded power plants. In addition, we are equally opposed to the system average costing concept.

We do not believe that any compromise will lessen the injustice of the proposed decision. To phase in a settlement will not make it right.

If you allow the FERC to require Arkansas to subsidize the Mississippi and Louisiana power users it would be a devastating blow to Arkansas based companies and citizens. Deltic will be at a substantial disadvantage in a marketplace that does not condone or allow a "pass it on" mentality.

Please, do not let insult be added to injury by allowing the FERC to implement such unlawful, illogical and unjust decisions.

Respectfully submiited by:

CTShipp

C. Terry Shipp, Controller
Deltic Farm & Timber Co., Inc.

DELTIC FARM & TIMBER CO., INC.

200 PEACH STREET
EL DORADO, ARKANSAS 71730

December 3, 1984

Senator Dale Bumpers
United States Senate
Committee on Small Business
2527 Federal Building
Little Rock, AR 72201

Dear Senator Bumpers:

Enclosed is a statement of Deltic's position regarding the potential impact of the proposed Grand Gulf nuclear power plant settlement. My testimony will be highlights from the written statement.

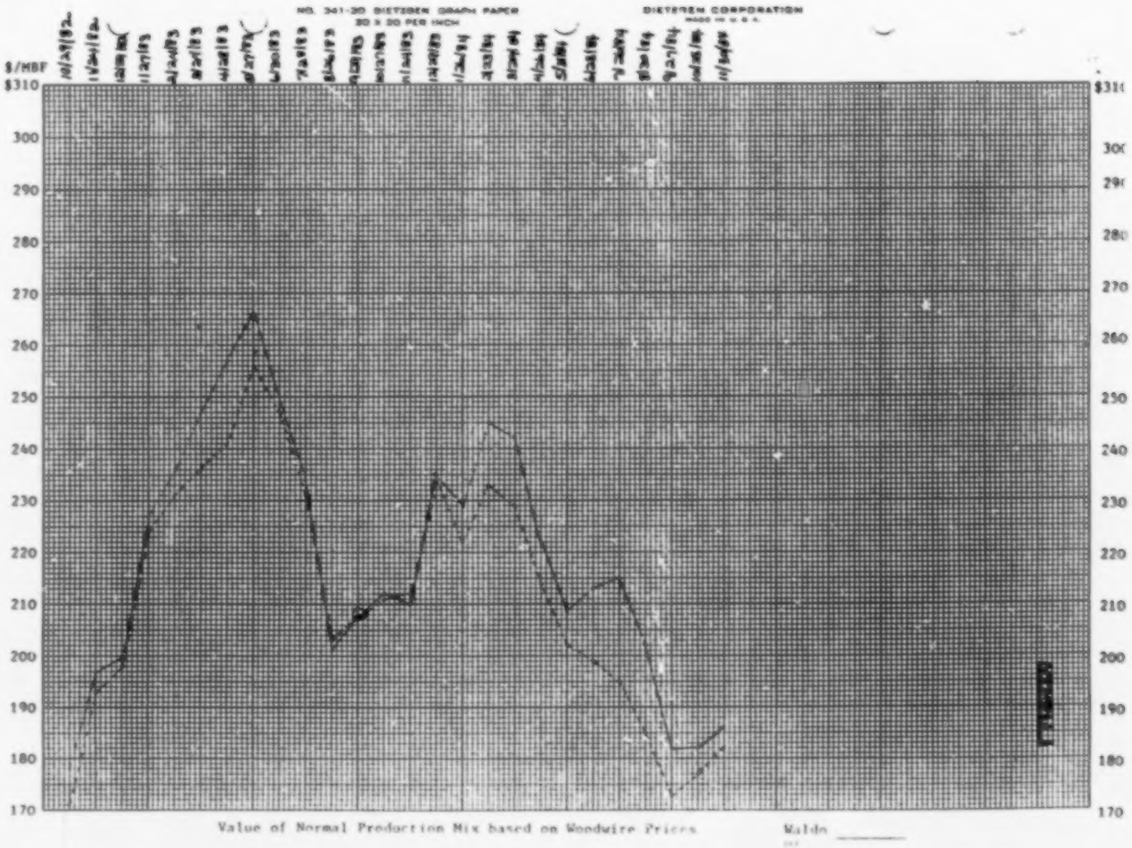
We appreciate the opportunity to present our views on this critical issue.

Yours truly,

CT Shipp

C. Terry Shipp
Controller

CTS:cw



Value of Normal Production Mix based on Woodwire Prices

APPENDIX 2

1980

SOURCE OF LUMBER - SOUTHERN U.S. MARKETS

(Percent by Region)

		Mills	
State	West Coast	South	Canada
1. Alabama	1.29%	73.59%	18.47%
2. Arkansas	4.13	76.46	13.51
3. Delaware	2.23	8.07	84.32
4. District of Columbia	8.46	13.72	46.53
5. Florida	6.14	22.51	57.87
6. Georgia	2.67	29.85	55.20
7. Kentucky	3.18	34.47	46.38
8. Louisiana	8.99	73.78	9.05
9. Maryland	3.75	24.83	61.70
10. Mississippi	0.95	84.39	10.58
11. Missouri	9.27	38.85	32.69
12. North Carolina	3.26	44.02	38.97
13. Oklahoma	26.03	33.07	12.49
14. South Carolina	2.09	51.93	37.55
15. Tennessee	2.34	48.10	37.20
16. Texas	8.72	50.54	20.46
17. Virginia	3.50	46.59	40.77
18. West Virginia	0.72	8.92	76.37

Dominant Shipper:

Canada -- 7 States
South -- 11 States
West Coast -- None of 18 States (Second in only 1 of 18 States)

Source Data: Council of Forest Industries of B.C.

Compiled By: Western Resource Alliance
3/82

December 7, 1984

I am Charles Shields and I live in Glenwood. Glenwood is a small rural town on highway 70, 30 miles southwest of Hot Springs with a pop. of 1212.

Glenwood is served by A.P.&L.

My wife and I own and operate, Shields Lumber, a small sawmill that employs 14 people. We manufacture three products, grade D & Btr. lumber for Potlatch Corp. in Warren, house logs for Arkansas Log Homes in Mena, and small timbers for Hatfield Lumber in Hatfield, all are in Arkansas.

We produce 16,000 board feet of these products per day. Here is a breakdown of my manufacturing cost on a daily basis---Log cost----------- ---$3360.00------85%

Labor cost------------- 428.00------11%

A.P.&L. cost------------ 79.00------ 2%

Insurance cost--------- 52.00------ 1%

Parts and Misc. cost--- 53.00------ 1%

Total Manuf. Cost-----$3972.00 100%

Here is a breakdown of income--

---- 10,000 feet @ 250/M = 2500.00

---- 4,000 feet @ 300/M = 1200.00

---- 2,000 feet @ 250/M = 500.00

Total Income = $ 4200.00

Margin for Profit is $ 228.00 Or 5%

If power cost goes up 25% to 50% I would have to absorb the increase myself. I cant pass it on to my customers, that would make my products too high and I would lose business.

Testimony of Sen. James C. Scott; U.S. Senate Committee on Small Business hearing
Little Rock, Dec. 7, 1984

STATE OF ARKANSAS
Arkansas Senate

GENERAL ASSEMBLY
LITTLE ROCK, ARKANSAS 72201

JAMES C. SCOTT
Senator, 34th District
Lincoln, Cleveland, Dallas, Bradley
and Ashley Counties
Route 1, Box 82-A
WARREN, ARKANSAS 71671-9780

COMMITTEES
Revenue and Taxation
Agriculture, Economic and
Industrial Resources

My name is James C. Scott. I'm a resident of Warren, Ark., and I currently serve as state senator from Arkansas' 34th senatorial district, which is composed of all or part of the counties of Ashley, Bradley, Cleveland, Dallas and Lincoln, in the southeastern part of the state.

It is predominantly a rural district, whose economy is largely dependent upon agricultural and forestry activity, particularly the latter. Three of its five counties are more than 80 percent forested, ranging from a high of 88 percent in Bradley County to a low of 37 percent in Lincoln County. According to the Arkansas Forestry Commission, it contains 36 primary and secondary forest industry plants, six of which are currently out of operation, primarily because of adverse economic conditions. More than 7,000 of its residents earn their living through direct employment in forest industry, or about 17 percent of its total work force.

As the only registered forester in the Arkansas general assembly, I feel that I have some particular understanding of current problems and concerns affecting the forestry community. For that reason, and because of the importance of forestry to my district, I would like to focus on that sector of the economy in my comments today.

As you know, the last several years have not been good ones for the forest products industry. High interest rates and changing demographic patterns have had a sharply adverse affect on housing starts. Industrial construction and general economic vigor have been slowed by a couple of deep recessions in recent years. And an already grim situation has been aggravated by the huge glut of Canadian lumber imports pouring into every area of the United States.

Estimates have been made that from 30 to 33 percent of the lumber currently sold in the United States is of Canadian origin. Deep and painful inroads have even been made into the very heartland of the southern pine industry. Figures developed by Canadian industry itself indicate that Canadian imports made up 63 percent of lumber sold in Florida in 1982...61 percent of that sold in Georgia...47 percent of that in North Carolina...and 42 percent in South Carolina. The 1982 figure for Arkansas was slightly more than 7 percent, but that is largely irrelevant in light of the fact that approximately 85 percent of the state's production is exported to other states.

The adverse impact of Canadian imports on southern lumber and stumpage prices would probably be less objectionable were it not for lingering suspicions that the Canadian government in effect subsidizes the Canadian wood products industry with low-cost timber from provincial forests.

All of that is simply by way of background, to underscore the fact that these are hard times for Arkansas' forestry community. New, more economically efficient means of production have been sought out and tried, and manpower requirements have been carefully evaluated, but the simple fact is that the industry is faced with a difficult price-cost-demand equation, and anything that adversely affects any element of that equation could cause real economic problems.

Obviously, in saying that, I particularly have in mind the subject of this hearing: the potential impact of the Grand Gulf nuclear power plant and related issues on small business and farmers in Arkansas. It is a subject which I am especially sensitive in light of the fact that the state's second and ninth largest electrical energy users--both forest industries--are located in my district.

The economic implications of this important subject, for all of the people of my district, could be enormous.

Let's look at the hard figures.

AP&L itself says that if Arkansas were forced to absorb 36 percent of Grand Gulf's total cost, as FERC has proposed, it would produce a normal, overall first-year rate increase in our state of 27 percent, down to 24 percent the second year, and so on through a fairly rapid depreciation schedule. However, AP&L proposes to phase in the increases over a period of years, so that the effective one-year increase would not amount to more than a relatively manageable 5 percent per annum. Nonetheless, the real increase would be great.

Our main concern, however, is posed by the system average costing proposal, whereby all Middle-South generating facility costs would be pooled--regardless of the state in which they might be located--for ratemaking purposes. In a recent speech before the Arkansas State Chamber of Commerce, AP&L President Jerry Mauldin said that adoption of this proposal would produce a potential 50 percent annual rate increase for AP&L ratepayers, with no depreciation factor to reduce the impact.

Gentlemen, that would simply be the deathknell for much of Arkansas' small wood products operations, which have already been struggling with steadily rising electrical energy costs over the past several years. A number of them have already attempted to shift to night schedules to avoid high-cost peak demand periods, and other economies have been sought. But the burden has been heavy.

A small sawmill operator in Dallas County expressed the situation in words that reach to the heart of the matter.

"We've struggled tooth and nail to stay in business the last 10 years," he said. "During that time, we absorbed several electrical rate increases to pay for new generating facilities in Arkansas. And now we're being asked to pay for Mississippi's. This little company has had one good year in the last 10 to recover, and those aren't very good odds.

"If we had been faced over the past 10 years with electrical cost increases of the size being talked about now, it would have created a life-or-death situation. If such an increase were to occur in the near future, under comparable economic circumstances, it would probably mean the demise of this company."

That operator went on to say that some of his competitors had already dropped by the wayside; one of them, located about 35 miles south of here, auctioned off his mill just yesterday.

When that happens, it involves not just the loss of forest products production; more importantly, it also involves jobs, payrolls, economic activity, tax bases for our schools and other public institutions. And, as we lose electricity-using industries, the rate base is inevitably shifted to remaining customers, with resultant additional increases in their electrical bills.

The people of my district--and, indeed, all of Arkansas--must have a favorable ruling in the system average costing case, and they are hopeful of a favorable decision concerning the Grand Gulf cost-sharing issue.

I would submit that the potential consequences are so great that should adverse rulings be issued, nothing less than drastic action would become necessary.

Obviously, Congressional relief could ultimately be sought, and I respectfully urge that members of this committee prepare themselves for such an eventuality.

One thing is certain: we cannot allow our people to become engulfed in economic chaos, and will take whatever steps are necessary to avoid such a circumstance. If state takeover and operation of Arkansas' primary electrical utility were to become necessary, then we would do what had to be done.

The issue is critical, gentlemen. Your interest in the matter is timely in the extreme; and it is very much appreciated.

Thank you.

Senator **Bumpers**. To accommodate some changes in the schedules, we're going to combine panels 10 and 11. That will be Earl Segrest of Stant, Inc.; Chinelcie Cole, president of Midwest Industries; Charles Jolliff, the executive director of the Arkansas Retail Grocers Association, and Cheryl Maxwell of Associated Milk Producers, Inc.

Earl, why don't we start with you first.

STATEMENT OF EARL L. SEGREST, JR., STANT, INC.; CHINELCIE COLE, PRESIDENT, MIDWEST INDUSTRIES: CHARLES JOLLIFF, EXECUTIVE DIRECTOR, ARKANSAS RETAIL GROCERS ASSOCIAITON: AND CHERYL N. MAXWELL, R.D., ASSOCIATED MILK PRODUCERS, INC.

Mr. **Segrest**. First of all, I'd like to certainly thank you for the opportunity to come and express Stants opinion here today.

Stant is the major producer of automotive gas, radiator, and oil caps for the big three automakers. Along with the automobile companies, we are in a significant struggle to compete and survive the severe Japanese competition.

We at Stant have stepped up to this issue, as evidenced by our winning the first Senate Productivity Award for the State of arkansas, which was presented by you and Senator Pryor. We have invested significant capital to improve our facility in Pine Bluff to take advantage of the favorable business opportunities in Arkansas. Electricity is an important component of our manufacturing cost.

As you know, we cannot afford to give any competitive advantage to the Japanese.

Our 1984 electrical cost in $425,000, which represents 7.1 percent of our overhead cost. If our electrical utility cost increased by 50 percent, it would have the same effect as adding 17 new direct labor employees, or an increase of almost 20 percent in our direct labor force.

Over the past 2 years we spent approximately $1 million in investment of four pieces of equipment that gave us the cost advantage of approximately that many people. Obviously, we have chosen the least line of resistance, or the most favorable investments, first. If we have to overcome this cost it will take more than $1 million, and I really don't know what project it would be, but certainly there are projects out there. When you take a step forward to try to improve on that, your competitive edge, and then just get knocked down, you've spent that million dollars for nothing, so to speak. It's a real problem for us.

I submit that it is critical to the automotive industry to not only maintain the productivity gains we have made, but also make significant new gains which we at Stant are committed to make. You can help us achieve our goals by not allowing an unfair increase to Arkansas Power & Light which will reduce our competitive edge.

Thank you.

Senator **Bumpers**. Thank you very much.

Earl, how many employees do you have?

Mr. **Segrest**. Well, approximately 250 people.

Senator **Bumpers**. How long have you been in Pine Bluff?

Mr. **Segrest**. We've been there since 1980, about 4 years.

Senator **Bumpers**. How many employees did you start out with?

Mr. **Segrest**. About 17.

Senator **Bumpers**. Do you know how much in percentage your electric bills have been going up over the past 4 years?

Mr. **Sequest**. No, sir; I don't have that information, but I can certainly provide that for you in addition to the testimony, and will.

Senator **Bumpers**. All right, please.

Chinelcie.

Ms. **Cole**. I am Chinelcie Cole, and I am the owner and operator of—a gentleman a few minutes ago made a statement of a "mom and pop" operation—this is a "mom" operation. [Laughter.]

At present, I employ eight people. We manufacture crating, pallets, and ammunition boxes. I am here because I have deep concern over this Grand Gulf issue because my productivity is solely based on electricity. When I walk in in the mornings, the only thing I can turn on that's not electric would be the gas to heat my office; other than that, everything else is totally electric. In my plant we have heavy, heavy equipment, similar to sawmill equipment. It was good to hear one of the gentlemen before me testify on lumber prices and how we have to absorb cost. When I buy directly from the mill, this product has to go through another cycle, which means it comes to me through the heavy equipment, through the saws, then milled down to the final product. At this present time, that cost is 10 percent of my total operating cost.

In checking as early as this afternoon with AP&L to find out what I can anticipate for my 1985 budget, what I can anticipate in terms of increase of electricity and electricity bills, we're looking at 12 to 18 percent without the Grand Gulf issue being settled. A business such as mine cannot, under any circumstances, even begin to deal with the natural increase, not to mention the Grand Gulf increase; that's 50 percent. My average bill, per month, averages $1,100. Now, if you were to double that, that's $2,200 a month. In terms of manpower, I could employ three people; that's growth for my business.

Should Arkansas be taxed with this increase, there is no growth. It means No. 1, I have to lay off people and put them back for the State to support. I would also decrease productivity. Decreasing productivity means I'm not going to be able to be competitive. In dealing with any sales that come to my office, it's on a bid basis, either commercial or Federal.

At this present time, with the excellent assistance of Senator Bumpers' office, I have been able to acquire Federal contracts; but with this increase, I will not be able to be competitive and I will not get that business.

So as I sit here, I think the bottom line to my testimony here is, should that increase come to us, I'm out of business. I cannot compete.

And I thank you for listening to me at this time.

Senator **Bumpers**. Chinelcie, thank you very much, and I appreciate that. That's very compelling, and I don't think there's anybody here that doubts for an instant what you're saying, that you're out of business if your utility costs go up to that magnitude; and you're not alone.

Charles, I guess you're next.

Mr. Jolliff. OK. Thank you, Senator. I certainly compliment you for calling this hearing today, and presiding over it so well.

I am Charles Jolliff, and I'm executive director of the Arkansas Retail Grocers Association.

We organized last March because we do have, in our association, over 500 retail grocery stores and associates already, and since I'm, the 41st speaker today, I plan to keep my remarks very short. [Laughter.]

Most of the fact have been brought out——

Senator Bumpers. I don't have a thing to do the rest of this day, Charles, you take all the time you want.

Mr. Jolliff. I'm not saying that equivocally, the fact that 41 people that are intensely involved in this subject is a real testimony to the fact that it was needed. In fact, it's not only dramatic but shocking, I think, what's been brought out here today, even though we've read it and we knew it, having these personal experiences brought out; they are very dramatic, I think.

Anyway, our association does represent the entire food industry, primarily retail grocers, wholesalers, food processors, bottlers, et cetera, and we are very interested in this subject and our membership does represent over 23,000 employees at this time.

We do use a large amount of electrical energy. The food industry is a large user of electric energy. We oppose large-scale increases in utility rates. I will not enumerate the reasons because we've heard it today already. Many of our small grocer operators are just about to go out of business already, and anything—any kind of increased costs—would, you know, just put them out. Just as in the case of the young lady to my left, there are many, many examples like that in the grocery industry that any kind of a sizable increase in the cost of their operation would put them out.

The markup in grocery stores is much smaller than in most other retail stores, as most of your know, and the cost of overhead has expanded to such a great extent that making a profit is really a problem. If they do make a profit, it's small. Since this is true, a large increase in utility rates—particularly electrical rates—would either cause the retail grocers, many of them, to go out of business or else to add it on to their prices so the consumer would have to pick it up. And the poor consumer—we're all consumers. Like the Senator said awhile ago, seems like we get it going and coming; we pick up the cost one way or another.

Senator Bumpers. And sometimes, both ways.

Mr. Jolliff.That's right. That's right. That's true.

So the fact is, to meet competition—the competition is very fierce in the grocery industry. You cannot charge over a certain amount for certain items because the people just won't buy them. And then if your overhead is built up above the markup, you're out of business; it's just that simple. And this is the kind of thing that puts people out of business.

So we would say, just simply, that we feel that it is a very important decision that's being made and that we just feel, in the grocery industry, that a slight increase of utility rates might be granted if warranted, but certainly nothing excessive would be really acceptable to the grocery industry.

Senator BUMPERS. Charles, right now, what percentage of the ordinary stores—I'm talking about the fairly good-sized major store, Safeway, Kroger, that size store—what percentage of their overhead or their cost of doing business is electricity?

Mr. JOLLIFF. Well, I couldn't say but that probably 2 percent of their overall sales——

Senator BUMPERS. Two percent of sales?

Mr. JOLLIFF. Right, that would probably be the figure that I'd have to——

Senator BUMPERS. It would be a lot bigger part of their overhead, though, wouldn't it?

Mr. JOLLIFF. Right. It would be a large percent of the overhead, and I don't have that figure right on the tip of my tongue.

Senator BUMPERS. I've seen this in Arkansas, and I know I've seen it in Washington, they're using these plastic strips over the meat and egg counters to keep the cold air from coming out into the store, and trying to reduce their energy costs that way.

Mr. JOLLIFF. That's right.

Senator BUMPERS. I'm sure they're like everybody else, they're looking for every way under the shining sun to save money on their energy costs.

Mr. JOLLIFF. Right. We're having seminars and one of the subjects we have would be a meat seminar, and we're actually advocating the use of such devices to cut down the cost of energy since it is getting more and more expensive.

Senator BUMPERS. Cheryl.

Mrs. MAXWELL. Thank you, Senator.

I am Cheryl Maxwell and I'm the program director for the Consumer Services Division of Associated Milk Producers, and I am a registered dietitian. The testimony I want to give today deals directly with my concern about nutrition, both personally and for the citizens of the State of Arkansas. My concern especially is about the detrimental effect on the nutritional health of Arkansans with limited financial resources that this potential rate increase of up to 50 percent could have.

Household expenditures for food by lower income families are 31 percent, maybe even more—at least a third of the families' total budget. And when there is an increase in another cost, in the cost of other budgeted items, the first place that a family will try to decrease expenses to meet this other increased budgetary item is in the food budget. They will decrease the amount of dollars that they spend on food.

This rate increase for power, as we have heard over and over today, could also, of course, result in the cost of food items increasing due to increased costs of production, of processing, and also the costs—as we just heard—that the retailers have to bear. So with less money available for food, and with the ocst of food increased, it's going to require really very skillful management by these families to make the wise food choices they need for a nutritional diet. And this is not something that's easy to do.

One of the other things that is of concern to those of us in the health community is that many families with low income simply do not possess these skills, they do not have the skills to manage their very limited resources so that they can provide the nutritious food that their family needs.

Also, in this environment we have currently for restraint in our Federal and State budgets, funds are not available to provide additional assistance that would help them to meet their nutritional needs.

The impact of poor diets would increase the number of nutritional-related health problems. Some of these problems, for example, could be low-birth-weight infants and problems associated with poor growth and development of children. And in Arkansas we are right now so very concerned, and rightly so, with the education of our children because they are our most important natural resource, and it's a real shame if we spend so many dollars to improve the educational system, yet the children—some of the children—are poorly nourished and simply are not able to learn.

Another result of the decreased purchasing power for food by families, of course, that's of concern to the business I work for and to all of agriculture, would be the decrease in demand for Arkansas' agricultural products. This could hurt the dairy industry very quickly. You know, there's always the clincher, "Well, we can do without milk, and we can drink water instead," and this sort of thing. This would hurt the nutritional intake of families, but it would also hurt the industry as a whole.

So I would urge that the Federal Energy Regulatory Commission consider not only the economic implications of their decision, but also the imapact that rate increases could have on the nutrition, and therefore the health, of low income families in the State of Arkansas.

I appreciate the opportunity to make my views known.

Senator BUMPERS. Cheryl, thank you very much. You've given us another dimension here. I never really related low-birth-weight babies to the cost of electricity, but I can see that you make a very good, cogent argument there.

You mentioned something here, Cheryl, that I thought was interesting. You said 31 percent of lower income families—31 percent of their budget is for food?

Mrs. MAXWELL. Yes.

Senator BUMPERS. What is the national average, do you know, for all families? What percentage of their income is spent on food?

Mrs. MAXWELL. Well, I can give you averages based on income levels. And these figures are adapted from the Bureau of Labor Statistics for family budgets. As I just said, 31 percent for food for lower income—that's under $10,000—and of course, the lower total of the family budget, the higher the percent of the income.

Senator BUMPERS. I understand.

Mrs. MAXWELL. Moderate income, which is classified from $10,000 to $25,000, about 22 percent of the budget is for food. For higher income, that's people with incomes over $25,000, it's 15 percent. So the upper middle income and the upper income families are not going to like increases and we'll have to find the money somewhere, but it is not going to affect the food budget. We'll be able to cut the budget elsewhere. We'll have more discretionary income from which to make cuts in order to meet our nutritional needs.

Senator **Bumpers**. Well, Cheryl, Charles, Chinelcie, and Earl, we really apprciate your coming very much. You have all given interesting statements.

Mr. **Segrest**. Thank you.

Senator **Bumpers**. Everybody has had a new dimension that makes it most interesting.

This is our last panel, and I'm not sure everybody's here. Poor Don Munro has been sitting back there patiently all this time. Mayor Bill Scrimshire of Malvern, Don Munro of Munro Co., Jane Adcox of the American Restaurant, and George Grant—is George here yet? He was supposed to be here at 4.

Bill, you're listed first, so why don't you go first, OK?

STATEMENT OF BILL SCRIMSHIRE, MAYOR OF MALVERN; DONALD MUNRO, MUNRO & CO., INC.; JANE ADCOX, OWNER, THE AMERICAN RESTAURANT; AND BILL THORNTON

Mr. **Scrimshire**. Thank you, Senator Bumpers.

I'd like to tell you that I appreciate the opportunity to testify before your committe today. It is good to have you in Arkansas.

I guess you could say today that I come here in three roles.

No. 1, I am a small businessman. I operate a small hamburger place.

No. 2, I represent the city of Malvern.

No. 3, I represent a community that has three Reynolds plants in it.

I'd like to more or less bring you up to date on the situation in Malvern, the way I see it, and I believe I can relate it to almost all of the other businesses in Malvern.

Some of them are larger, and some of them are smaller. I would like to kind of give you an idea of our situation in Malvern.

In about the last 4 or 5 years, I guess you could say, in the hamburger business, my electrical rates have probably just about doubled. About 7 years ago I remodeled and went from a 6-seater restaurant to an 80-seater restaurant; and it cost just as much to cool that in the summertime if you run $100 a day as if you run $1,000 a day. And I won't dwell too long on that , but my electrical bill so far in 1984 has been somewhere around a low of $941 a month to $1,080.77 per month; and if you took the 35 to 50 percent and added to that, it doesn't take long to figure out exactly how much it would be. In some months, that would be close to 10 percent of my total volume. I ran about $188,000 in my restaurant last year, and I'm running about—at this time, I'm running $12,000 below what I ran this time last year. I think this can be attributed to the economic downturn in Malvern and Hot Springs County.

Also, this is something that concerns me, and I think it concerns all of the business people in Malvern; we are all pretty well concerned about what would happen if the Grand Gulf rate of 36 percent—I'm speaking more or less as a mayor now, thinking about some of my constituents and my people—in the city of Malvern alone, if they applied a 36-percent rate increase to the electrical customers, that means the commercial people will pay an additional $513,000 that will not circulate and give any economic impact to Malvern and Hot Springs County or the State of Arkansas, that will be extracted from just my people, the commercial people, and will go to Louisiana or Mississippi. That means these commercial people cannot buy capital improvements, they cannot spend money on payroll and profits; and profits help us pay taxes.

If you take the residential customers and apply the 36-percent increase, they will extract $775,569 from the residents in Malvern—in Malvern alone, not Hot Springs County—and this is money that people will send to Louisiana and Mississippi. It will have no economic impact in Malvern, Hot Springs County, or the State of Arkansas. They will be unable to buy 775,000 dollars' worth of hamburgers, furniture, cars, groceries, gas, and educate their children.

Profits keep people working to pay taxes. Now, let me expand just a little bit more and tell you another concern of the business people in Malvern.

At this time, the Reynolds-Jones Mill plant is operating at a capacity of 40 percent. When they're operating at 100 percent capacity, they employ 815 people, and annual payroll and benefits of $32 million, and a total economic impact of $112 million. And we're afraid—we all operate on dollars, dollar volume, and that's dollars that are generated in the community. And you're talking about $112 million; and then if you turned this $775,000 and $513,000 around three of four times you're talking about nearly 120 million dollars' worth of economic impact we're going to lose from our small community of Malvern.

The small business community is very concerned about it. We don't feel like we can stand much more. As you know, we're under mandate from the Federal Government to emit cleaner water into our rivers, and we're going to have to ask our people for a water and sewer increase along with these increases in electrical rates. And in Hot Springs County, we're about 32 percent of the people in retirement age, so we have a—I guess you could say, Senator Bumpers, we elected officials are kind of between the trigger, so to speak.

But anyway, this is basically what the situation is at Malvern. I don't know exactly what the solution is. We're not here to turn over or quit and die, but, you know, my community in the last 10 years, since 1973 and 1975, we have been anywhere from one to two to three in unemployment. And this last year, we got our unemployment down to 12 percent; we were very proud. We dropped to 15th in the State of Arkansas. Now with Reynolds operating at only 40 percent of capacity, we have eased it back up to 13 or 14 percent. And the thing that concerns me the most is the dollars, the volume of dollars that the *Grand Gulf* case is going to extract from my community. It will have no economic impact and be sent to Louisiana and Mississippi

I guess you could say that all of the businesses in my community are rather relative to mine. I talked to a salesman at Willamette [phonetically] Industries last night; they are a large industry, they work about 80 people. They are a new industry that, you will remember, you helped us get a UDAG grant for. They explained to me that if they had a 35-percent increase in power, they would not make any money this year.

Also, we have a possibility of a truck terminal and a truck stop on the Interstate here that a basically annexed, and they're having to kind of wait and see to see what happens to Grand Gulf because of the power situation.

Another interesting thing, Senator Bumpers, 20 years ago when I went into the hanburger business I sold hanburgers for 30 cents and paid a low wage of 50 cents an hour. All of my employees had telephones. Now, I start off from $3.05 up to about $4 an hour, and unless an employee lives with their folks or their parents or their husband has a real good job, none of them have a telephone. I thought that was a very interesting analogy there.

Once again, we appreciate the opportunity to get to testify. I come as the mayor of Malvern in a community that has three Reynolds plants, and a small business, and we appreciate the opportunity to get to testify today.

Senator **Bumpers**. Bill, that's a really statement, firsthand, both as a public official as a businessman, and as somebody who is concerned about Hot Springs County which is obviously seriously threatened. We all understand that and we know, and we emphathize.

You were talking a moment ago about how you were going to have to raise your sewage rates there. That's typical of the Federal Government and just drives me and everybody else up the wall. We require all the cities of this country to develop what we call secondary treatment of waste water by 1988, and we almost simultaneously cut down the Federal share of matching funds from 75 to 55 percent. The city of Warren, for example, is talking about having to double rates. There were some people in my office this week in another city similarly situated to them, Pine Bluff; they're talking about having to double rates. These people are talking about haveing to pick up the entire cost; and of course, they're trying to scale back on the magnitude of the project because if you're charging people $12—what percentage of your people are retirees?

Mr. **Scrimshire**. Over 30 percent.

Senator **Bumpers**. Over 30 percent?

Mr. **Scrimshire**. Yes, sir.

Senator **Bumpers**. Well, I know in one city—some people in my office this week were talking about going from $12 to $25 a month for waste treatment. Obviously, the Federal Government's not going to be able to impose the 1988 standard; there isn't any way in the world the cities of this country could satisfy that kind of a mandate. That is sightly separate from this kind of an issue, but it just points out that people are having such a very difficult time. These are worthwhile. We need to go to secondary treatment, nobody would resist that of question the advisability or desireability of doing that, but, that's like worthy causes and my charitable giving. There's an endless number of good causes, but my ability to contribute to all of them is very limited.

And so it is with this. People just have so much money. To dramatize that in another way, in 1980, when we had probably the worst drought in the history of this State, we had over 110 people die in this State in 1980 and almost every one of them were people who had an air-conditioner or a fan but were scared to turn them on for fear they couldn't pay their utility bills. You know, if you've ever been around elderly people you know they're very conservative and want to be sure they can pay their bills and that sort of thing. That's what happened in that case.

So, in any event, Bill, I admire you very much. You're the mayor of a city that's got big problems, and I appreciate your coming up here to share that with us.

Don, thank you for waiting around. Don Munro has five shoe plants in the State of Arkansas?

Mr. MUNRO. Five and a half, I call it.

Senator BUMPERS. Five and a half? Don, we're honored to have you here and look forward to hearing from you.

Mr. MUNRO. Well thank you, Senator.

I want to say that I regret missing this morning's session because this afternoon's has been so instructive. I thought I was the only person in this State with problems until I heard the testimony this afternoon.

I'm the president of Munro & Co., which is a privately owned shoe-manufacturing company operating at six different locations in Arkansas. Most of these locations are small towns where we are the only major industry, or one of a very few employing more than a small number of people. The one exception is Hot Springs where we are one of several major employers, but where we have maintained reasonably steady employment for 24 years while many other companies have come and gone or had extreme fluctuations in employment.

In our small town locations, it is worth noting, we integrate particularly well with the local agricultural industry. In fact, when times are tough for the farmers, which is not too unusual, we may be providing most of the paychecks and most of the income in these communities.

My point is that we think we fill a real purpose in the economy even though we are relatively labor intensive and have been scorned occasionally as "low-tech." Also, we employ many underprivilized, undereducated, often handicapped and minority workers in the production of a vital consumer product.

Munro & Co. employs from 80 to 500 workers in each of its 6 plants, with a total of 2,000 employees. Every one of these employees is keenly aware that the shoe-manufacturing industry has been devastated over the past few years by unfair, subsidized, low-labor-cost imports. Our industry has lost 75 percent of its capacity in the last 15 years, with over 100 shoe-manufacturing plants being closed so far this year.

As chairman of our national industry association, I spend a lot of time fighting to save what has become a marginal, and perhaps terminal, industry. Even those of us who are left have been pushed right to the wall, and every incremental increase in our cost of doing business becomes a potential straw to break the camel's back. So when we resist increased costs, we do so out of desperation, not just a matter of policy or philosophy.

Even though Munro & Co. has performed better than most of its competitors during the past few years, and even though we have remained profitable, those profits have been shrinking dramatically during each of the last 5 years and, frankly, our return on investment no longer justifies the investment. Specifically, profits since 1980 have decreased by an average of 30 percent each year, and return on investment has gone from 24 percent in 1980 down to an estimated 3 percent for this year.

Of course, while profits have shrunk, there have been corresponding increases in many of the elements comprising our costs. Of these, electric power consumption has become, percentagewise, each year a larger and larger factor, indicating that increases in the cost of electrically have outstripped the increases in our other operating costs after making adjustments for differences in circumstances.

Electric power is important to us in two ways. First, we use a lot of energy in the production process, especially for molding, shaping, and drying the shoes and the component parts. Also, as labor-intensive manufacturers, we require a great deal of air-conditioning in our plants in order to attract and keep a work force.

In 1980, our electric bill totaled $432,000 for the year. By 1984, it has grown to a projected $570,000 despite investments of over $350,000 in energy-savings equipment since then, and despite a 6-percent decrease in our production.

Obviously, our company has cause for concern on several scores. Any extraordinary increase in any major component of our manufacturing expense is apt to tip the scales in favor of closing, retrenching, or changing from a manufacturer of footwear to an importer-distributor of footwear. Clearly, a huge increase in our power costs, as a consequence of the FERC's ruling on Grand Gulf, could have a serious, even devastating effect on thousands of people in many Arkansas communities as a result of its impact on our company alone. We have had absolutely no voice in the creation of this situation, so we are totally dependent on the fairness and wisdom of our Government legislators and regulators to protect our interests. I pray they may do so.

I thank you for your attention and interest.

Senator BUMPERS. Don, thank you very much. I know that it goes without saying that I am so aware of the problems of the shoe industry in this country, and have worked closely with you and others trying to, quite frankly, get the President and the International Trade Commission to do something. If there is an industry in this country that has really been discriminated against, it has been the shoe industry. I hope this doesn't sound self-serving, but I have never felt more emotional and stronger about anything than I did the day I went over and testified before the International Trade Commission on behalf of the shoe industry in this country. Obviously, it fell on deaf ears and the decision that they came with was the most irrational, unfathomable decision I have ever read in my life. It made absolutely no sense to me. That was early this year, I guess, wasn't it?

Mr. MUNRO. June of this year.

Senator BUMPERS. I told them that if we didn't get some relief they didn't have to worry about us coming back because there wouldn't be enough shoe industry left to save. Obviously, if you compound the problems of imports and the competitive disadvantage we're at in trying to manufacture shoes against companies who pay $1 a day or $1.75 a day, and you compound that with a staggering rate increase of this magnitude, that just almost certainly seals the doom of the shoe industry in this State.

Don, I thank you very much for being here to testify.

Mr. **Munro**. OK, Senator.

Senator **Bumpers**. Ms. Adcox.

Mr. **Adcox**. I am Jane Adcox and I'm from Batesville, and I have a restaurant in Batesville. I employ, on the average, about 25 persons full time. In the summertime our business does pick up a little bit because of the tourism and the trade up in that area, but I was tickled when he said he cooked hamburgers. It kind of makes me feel better and better. [Laughter.]

Being here among big business, you know, you feel kind of out of——

Senator **Bumpers**. Listen, don't feel bad about that.

Ms. **Adcox**. When we took our restaurant in 1979, we started—we knew absolutely nothing about the business, so what we did, we learned from each other. And I had worked in the motel that was next door a long time, and I knew what their electrical rates ran. And when I went up to the restaurant I kind of kept an eye on them and compared the two, and that year, which was 1979, my July bill was over $2,200, and they thought that was pretty tough because it had been pretty warm up to that point, or what I considered a normal amount, around $1,500. And then my August one was $2,700, so we sat down with a couple of local contractors and we decided we wanted to figure out what was wrong.

It was real hard to cool, and also the operational costs were not really controlled because the equipment was old; it needed some modernization, I guess, is what I'm trying to say.

We found out that insulation and changing a lot of our equipment into this three-phase, and also rerouting it at the proper levels in the kitchen--anyway, there was a bunch of stuff that went on in the kitchen, and it did considerably save us for the next 3 or 4 years. I noticed a dramatic change, decrease, in our electric bill.

But also down here, where I point out that utilities are now 6.1 percent of our gross volume as compared to 1979, at 3.1 percent—the point should be made that in that year, we were the only restaurant in the town, and our gross was not necessarily considerably larger, but our gross has not changed that much in amount since competition has changed. We've got a lot more eating places around. But, you know, 3 percent total over a 5-year period is quite a bit, or I think it is.

I don't have exact figures because I didn't think it was really that totally necessary; but to increase the utility rate to a business such as me in the proportion that this one is, it would just be, you know, pretty dramatic, affecting me by having to pass the cost on to my customers. And in a rural area like Batesville—and I know there are a lot of them in the State—we'd just have to close. I can't compete with the fast food chains, the ones that have the low overhead. I'm a full service restaurant that is open from 6 o'clock in the morning until 10 p.m., 7 days a week, 364 days a year. It's tough enough now; I know we would be really hurt by a big increase like that. And I think it would affect the whole State, not just me.

Senator **Bumpers**. Jane, I thought I knew every restaurant in Batesville. Are you on the highway coming in?

Ms. ADCOX. Right across the street from Idea.

Senator BUMPERS. Across the street from Idea?

Ms. ADCOX. Yes.

Senator BUMPERS. Did that used to have another name?

Ms. ADCOX. Yes.

Senator BUMPERS. What was it?

Ms. ADCOX. It was Kelley.

Senator BUMPERS. OK; I know where that is. And how long have you had that?

Ms. ADCOX. Since 1979.

Senator BUMPERS. Did you change the name to the American Restaurant then?

Ms. ADCOX. When I took over; yes.

Senator BUMPERS. Listen, the first big political rally I ever had was attended by four people at Kelly's Grill there. [Laughter.]

I know that place well.

Well, Jane, I certainly admire you very much. How many employees do you have?

Ms. ADCOX. Around 25 full time.

Senator BUMPERS. That's amazing. Two shifts?

Ms. ADCOX. I have more than that; I have four shifts.

Senator BUMPERS. Four shifts?

Ms. ADCOX. Well, now, wait—I'm a small town restaurant; I don't have shifts, I have cooks.

Senator BUMPERS. Well, you have people who just work a few hours——

Ms. ADCOX. Oh, no, they work——

Senator BUMPERS. Well, you say you're open from 6 to 10?

Ms. ADCOX. Yes; my shifts run 5 to 2 and 2 to 10.

Senator BUMPERS. I see.

Ms. ADCOX. But I have cooks; I can't call them shifts.

Senator BUMPERS. Other than that, are you doing OK?

Ms. ADCOX. Well yes. Business is not—as I was saying, it's kind of tough when you first start into business and you're the only one, pretty much; but know, you start out gung ho and you're really successful right at first, and then all this competition starts coming in which is in the fast foods and the Bonanzas and this, that, and the other, and you can't do anything except stay there and hope that your quality outdoes their cheaper prices, and stay in business.

Senator BUMPERS. So your 12-month average is running almost $1,300 a month electricity?

Ms. ADCOX. Yes; we have never averaged our bills, and it was suggested to me, so I thought I would try that as being more beneficial for me; but my highest volume of sales is in the summertime, so when my bills are at their peak I'd rather not do that.

Senator BUMPERS. So you'd rather pay the high bills when you have the most business?

Ms. ADCOX. Yes; well, I have to because of the lien on that——

Senator BUMPERS. You just couldn't back it then? I see what you mean.

Well, Jane, Don, Bill, thank you very much for coming today. I appreciate it very much.

We have one witness who was supposed to be a part of this panel, Bill Thornton. Bill, come on up. Bill, just come right around here and take that seat.

Mr. **Thorton**. OK.

Senator **Bumpers**. Bill, you have the distinction of being our very last witness here today, so just fire away. I can tell you're going to speak right off the top of your head, aren't you?

Mr. **Thornton**. I've got to speak from the cuff. I don't have a written script.

Senator **Bumpers**. OK.

Mr. **Thornton**. It seems like things are going all wrong; I didn't know whether I was going to make it or not. So I'm glad I got the opportunity to come, Senator; I appreciate you asking me to come.

I guess I'm going to speak mostly on behalf of the Arkansas dairy farmers. I've been in the dairy business 26 years, run a little family operation, and I feel real fortunate to live in this country, in the United States, and especially Arkansas, and real fortunate to live in this State that has a lower rate of electricity that we have enjoyed for some time, even though we complain about our bills all the time.

Since 1980—and I heard you speak of the drought a while ago, Senator—the farmer in this State has really been strapped economically. He's been hit with higher cost of production, higher interest rates; we look at our financial statement and we see lower land prices, lower cattle prices, and therefore it makes our borrowing power a little bit shorter. And we've got a lot of farmers that are just right on the brink of failing.

If this increase in energy cost—it could be the straw that breaks the camel's back on a lot of farmers. It could cause them to completely go out of business. That don't sound like it could be that much, a 25- to 30-percent increase, but it could be the one that causes them to go out of business.

There's one way I see that we could handle this. If this is passed on, if we are strapped with paying this extra cost to build this nuclear plant in Mississippi, that some way or another the dairy farmers of Arkansas are going to have to pass this on to the processor. The processor is going to be strapped with higher costs, and he's going to have to pass it on to the consumer. So it's going to boil down to the consumer paying the cost, which we're all consumers in the end. But the consumer is the one that's really going to be hurt in this because the farmer cannot take any more. He's going to be out if he can't pass it on. So I think it's going to boil down to the very end, where the consumer is going to be the one that's really going to be hurt. I just feel that there must be some way that the Commission can do something to help us on this and not strap us with this extra cost. It will be a burden to the people of Arkansas, a very wonderful State.

Senator, this is about all I've got to say. I didn't have a written script or anything, and if you've got any questions, I'd be glad to try to answer them.

Senator **Bumpers**. Well, Bill, I know the dairy industry. Of course, if you lose your dairy price support and you couple that with this, you'r really going to be in big trouble, aren't you?

Mr. **Thornton**. We're in trouble anyways. I just talked with Bill last year and some more people from the administration, and we're in trouble this year. And I understand some of the situations, and I don't want people to think that we dairy farmers are out here begging for something or some kind of handout or welfare. What we want is, we want to make a living on the dairy farm and produce a good domestic quality product that is available on the grocery shelves when the consumer goes there to buy it, at a reasonable price. If we keep being strapped with these increases and everything—they're coming along on the interest rates, energy costs, and we're affected. This energy affects us in a lot of ways. Our fed mills use electricity to make the feed; our fertilizer plants use electricity for fertilizer; our operations plant uses a tremendous amount of fertilizer. And you break all this down and it goes back to the consumer, it's going to be a burden.

Senator **Bumpers**. Well, we're going to conclude these hearings. This is the last panel.

Let me say that when I decided to hold these hearings a couple of months ago I really wanted to know what was the likely impact and what could we anticipate based on different scenarios as to what part of these decisions we may win or lose. Out of the 40 to 50 witnesses today, I have not heard any witness say, well, it'll be kind of tough but we can handle it or we can get along. Every single witness has testified in very dramatic terms—I would say that fully 25 percent of the witnesses here today have said that it would put them out of business.

Now, that's really dramatic when you think about one single thing that could happen in this State that would cause that many people to close their doors.

I must say also, completely aside from Grand Gulf, I've been impressed by the people who have testified today that they're just barely hanging on now. The profit margins are so slim and getting slimmer all the time. Don, in your particular case and so many others, imports are just putting unbelievable burdens on profits from domestic-produced goods. And when you add something like this, that could not have been anticipated or foreseen as recently as 2 years ago, and you think about the adverse economic effect it's going to have on our State, we must redress this in the courts or some other way.

I'm always reluctant to get into these things and politicize them, but that's what politicians are for, every politician. One time somebody asked Harry Truman, after he left politics, how it feels to be an elder statesman. He said, I'm not an elder statesman, I'm a politician and damned proud of it. And that's what politicians are supposed to be. They're supposed to be proud of their profession, they're supposed to help people, and they're supposed to hold hearings like this so that they educate themselves and dramatize and focus and highlight some of the problems we are faced with. This hearing has turned out to be much, much better and more instructive to me than I ever dreamed it would. The information we've gotten here today will always be helpful to me, not just in this area, but in a lot of other areas, too.

I want to thank all the panelists who have testified. I want especially to thank the staff, who have been so helpful to me. This is

John Ball of my personal staff; this is Alan Chvotkin, who is minority staff director of the Small Business Committee; and Tom Walsh, who has been on my personal staff for many years and is now tax counsel of the Small Business Committee. And this gentleman here is from Washington, he is a part of the organization in Washington who takes down the testimony of all hearings, working out of a pool there under contract, and we're glad to have him. I'm sure you got every word of this down just right. And to everybody who has testified here today, my personal, profound, sincere thanks.

So, this committee will be adjourned.

[Whereupon, at 4:30 p.m., the committee recessed, to reconvene subject to the call of the Chair.]

○